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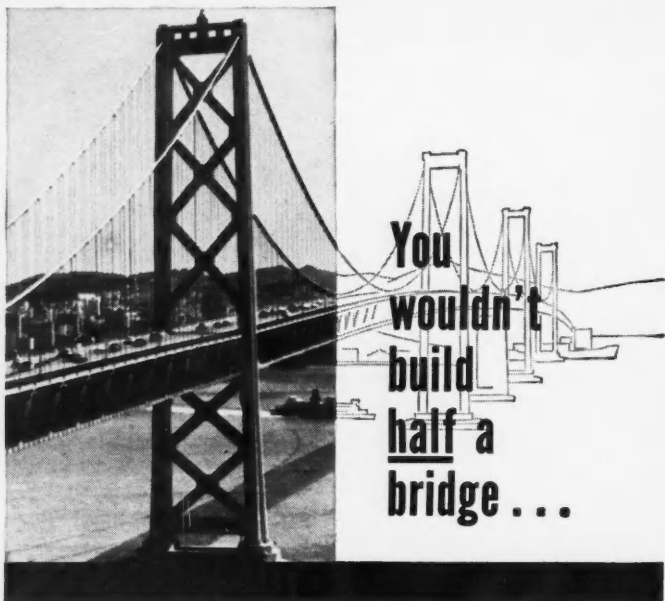
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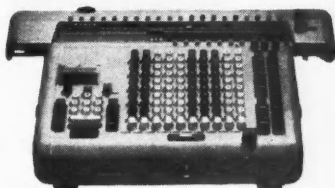
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THE CANADIAN CHARTERED ACCOUNTANT

VOLUME 76, No. 5

May 1960

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The Canadian Chartered Accountant, May 1960. Published monthly by the Canadian Institute of Chartered Accountants. Chairman, Editorial Board, H. S. Moffet, F.C.A.; Editor, Renny Englebert; Asst. Editor, Jean Vale. Advertising Representative, E. L. Vetter. Editorial and Business office: 69 Bloor street east, Toronto 5. Subscription rates: \$6 a year; 60 cents a copy. Printed by General Printers Limited and mailed at Oshawa, Ontario. Authorized as second class mail by the Post Office Department, Ottawa. Opinions expressed are not necessarily endorsed by the Canadian Institute.

IN THIS ISSUE



C. R. ARMSTRONG (page 439)

In recent years it has become increasingly clear to top management that to carry on a successful business means devoting a great deal of attention to the management of manpower. In his thoughtful article, Charles R. Armstrong points out that as the demand for unskilled and semi-skilled labour lessens because of the gradual introduction of automation, the need for people with natural and trained mental ability will increase. And, in "Manpower Planning" he shows why there is a demand for more and abler industrial managers and how some of the difficulties in training for the development of management skills can be overcome so that an enterprise has available, at all times, an effective working force.

Mr. Armstrong is assistant vice-president, employee relations, of The Bell Telephone Company of Canada and has studied manpower management from several vantage points. After obtaining his M.A. in psychology from McGill University in 1926, he joined the Bell Telephone Company and was engaged in personnel and employment work in various departments before becoming general personnel supervisor in 1941. From 1946 until 1952 he was in Ottawa as division plant superintendent of the newly formed eastern Ontario division of the company and on returning to Montreal he became assistant vice-president of personnel. In 1958 he was appointed to his present position. He is a member of the Board of Governors, Sir George Williams College,

Montreal and a past president of the Laurentian Council, Telephone Pioneers of America.

P. J. ROBINSON (page 445)

While operations research is no general panacea and is still in its infancy in industry, it can successfully tackle a virtually endless variety of research problems in business and administration, says Patrick J. Robinson who, under the title "Operations Research II — Dawn of Scientific Management", continues his discussion started in the preceding issue of *The Canadian Chartered Accountant*. Here, Mr. Robinson, who recently joined Socony Mobil Oil Company Inc., New York City in its newly formed corporate planning & analysis department, describes some of the more familiar industrial staff activities which may be related or complementary to operational research. Some problems may lend themselves to incorporation within the accounting framework, others may be more properly left for other professional groups to handle. In order to clarify his discussion, the author explains also, by means of a few rhetorical questions, just what operations research is and the kind of problems on which a busy manager is likely to require assistance from an operational researcher or management scientist.

H. G. GORDON, C.A. (page 454)

In "Operation of a Business in Bankruptcy" Herbert G. Gordon, an experienced trustee in bankruptcy, takes a look at some of the duties of the trustee when a plan of reorganization is involved. The decision to carry on operations generally arises where they are perishable assets or where a sizeable portion of the inventory con-

Continued on page 422

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Continued from page 420

sists of semi-processed goods. Successful operations, says the author, can only be carried out with the cooperation of the bankers, management, employees and the suppliers of material so that the interests of the creditors are protected at all times.

Mr. Gordon is a partner of Gordon and Larke, Toronto, chartered accountants and trustees in bankruptcy. He is a member of the Joint Committee on Bankruptcy of the Toronto Board of Trade responsible for drafting a Uniform Bulk Sales Act which resulted in the adoption of the Bulk Sales Act 1959, Province of Ontario.

A. C. BURNS (page 459)

We believe that our readers are always interested in the workings of any department of government which may affect their clients and with which they may be called upon to deal from time to time. At present over 300,000 employers contribute to the government's Unemployment Insurance Fund on behalf of their employees, and in "Financing Unemployment Insurance" A. C. Burns describes some of the problems of administering the plan so that it will be easier for employers and their accountants to see that its operation functions smoothly and efficiently.

Mr. Burns has held his present position as assistant chief auditor of the Unemployment Insurance Commission since 1947. He began his career by serving for several years with a firm of chartered accountants in Ottawa and joined the staff of the Commission as an auditor in 1941 when the Unemployment Insurance Act became effective. He returned to the Commission after his discharge from the Army in World War 2 where he saw service in the Far East.

G. E. BARR, C.A. (page 466)

As the economy moves along its current uneven course, manufacturers are continually looking for ways and means of controlling or reducing their costs and expenses. For small businesses lacking the personnel to operate a full-fledged costing system, G. Eric Barr offers an alternative method, and in "Test Costing" he points to specific ways by which a wealth of information for providing finished product unit costs can be obtained. The system can be operated without the assistance of time and motion studies, says the author, and the cost information is so detailed for each operation that it can be of great help in estimating the probable cost of new lines or the effect of proposed changes. Mr. Barr, a partner of Thorne, Mulholland, Howson & McPherson, Toronto, is associated with the management services division of the firm. From 1936 to 1944 he was chief accountant with Canadian Gypsum Co., Ltd. He is a member of the Institute of Chartered Accountants of Ontario and the System and Procedures Association (Toronto Chapter).

EDITORIAL (page 437)

This month's editorial "Broader Professional Education" by Donald J. Campbell is a timely one and might well be read in conjunction with the correspondence which appears on page 432 dealing with the recent report of the C.I.C.A. Sub-Committee on Long-Range Educational Planning. The demand for more and better accounting services has added new urgency to the persistent question "How can an adequate educational program be insured?", and the important subject "Educational Requirements for the Profession" based on the report of the C.I.C.A. Sub-Committee on Long-Range Educational Planning

Continued on page 426

When is a Right a DUTY?

Today everyone enjoys as his birthright, privileges which once were the possession of only a few. But his birthright also includes responsibilities with respect to the privileges he enjoys.

Education is one of the privileges which carry responsibilities. All of us have the responsibility, for example, of helping to ensure that every young person has the opportunity to complete his education, and of seeing that the quality of instruction at our schools and colleges is maintained at a high level.

Sun Life Assurance Company of Canada is preparing, for free distribution, a series of booklets on educational matters of importance. These booklets, issued as a public service, discuss problems in which all of us share responsibility. Inquiries about this series should be addressed to:

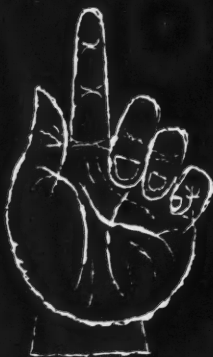
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Continued from page 423

is a major topic for discussion next month at the annual conference of the Institute of Chartered Accountants of Ontario.

Mr. Campbell, a partner in the Winnipeg offices of Price Waterhouse & Co., has been associated with student studies in Manitoba since 1940 and became director of studies in 1948. He is now president of the Institute of Chartered Accountants of Manitoba.

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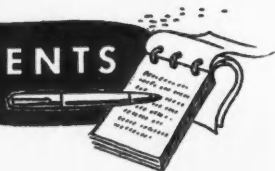
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NOTES AND COMMENTS



Proposed Income Tax Amendments

A number of technical amendments in connection with the Income Tax Act were recommended by the Minister of Finance in his budget address on March 31. Five of these deal with recommendations which were made in the joint brief submitted by the Canadian Institute of Chartered Accountants and the Canadian Bar Association and include:

Medical Expenses

The committee recommended that the present restrictions on maximum amounts of medical expenses allowable be rescinded.

Budget resolution No. 3 provides for an increase in the maximum amounts allowable.

Designated Surplus and Related Provisions

The committee recommended that a Royal Commission or a special committee be appointed to study the problems arising generally from the scheme of double taxation of corporations and corporate distributions and in particular from the designation of surplus under section 28(2) of the Act, with the object of suggesting a new approach. It recommended also, among other things, that the par or stated value of shares other than common shares be treated as liabilities for the purposes of section 105C of the Act.

The Minister stated in his budget speech that "we would be undertaking a comprehensive study" of such matters as the designation of surplus under section 28(2) of the Act and

the taxation of earnings that are distributed or are available for distribution in various forms by corporations.

Resolution No. 5 provides that any share other than a common share of a new corporation resulting from an amalgamation shall be deemed to be a liability of the new corporation for the purposes of section 105C of the Act.

Time Limit on Reassessments

The committee recommended that section 46(4) be revised to include a statement that the date of mailing of the notice of assessment or reassessment is the date of the assessment or reassessment, and to provide that an assessment whereby it is determined by the Minister that no tax is payable is an original assessment for the purposes of this section.

Resolution No. 10 provides for both the points recommended.

Foreign Tax Credit

In previous years the committee has recommended that the full amount of tax paid to a foreign country be considered to be foreign tax paid for purposes of computing the foreign tax credit.

Resolution No. 7 provides for this treatment except with respect to foreign tax paid on dividends which the recipient may exclude when computing his taxable income.

Pension and Similar Benefits

In previous years the committee recommended that only the net amount received under a pension plan

Continued on page 428



Ian R. A. Runciman,
Cost Analyst, Burns & Co. Limited

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or annuity, after deducting succession duty payable with respect thereto, should be treated as income of the recipient.

Resolution 14 provides for such a deduction from a superannuation, pension or death benefit or a benefit under a registered retirement savings plan, determined by reference to provincial succession duty or Canada estate tax applicable to the benefit.

1960 C.I.C.A. Conference

Eric Kierans, president of the Montreal Stock Exchange, will give the keynote address to the 1960 annual conference of the Canadian Institute which takes place in Banff from September 11 to 14. Invitations to the conference will be mailed to all members of the Institute later this month.

C.I.C.A. Council Meet

The Executive and Council of the Canadian Institute will hold their spring business meeting from May 28 to 31 at The Chantecler, Ste. Adèle, P.Q. Purpose of the meeting is to receive reports from the chairmen of C.I.C.A. committees and to review the annual financial statements of the Institute.

Committee Meetings

On April 11 the C.I.C.A. Committee on Continuing Education met in Toronto under the chairmanship of C. C. Mackechnie.

The Board of Examiners-in-Chief of the Provincial Institutes of Chartered Accountants met at Mont Gabriel, Quebec, to prepare the 1960 uniform examinations. The timetable of the examinations, which will be written in September, appears on page 505.

The Annual Conference Committee held a meeting on April 5 in Montreal with F. T. Denis as chairman.

The Magazine and Publications Committee of the Canadian Institute met on April 25 in Toronto. Chairman was H. S. Moffet.

Tax Foundation Elections

Elected as chairman of the Canadian Tax Foundation at its annual meeting on March 29 in Toronto was S. D. Thom, Q.C. of Toronto. Newly elected vice-chairmen are A. J. Little, F.C.A., Toronto, and J. deM. Marler, Q.C., Montreal.

Balance of Payments

According to the Dominion Bureau of Statistics, Canada's purchases of goods and services from other countries during 1959 exceeded sales by \$1,460,000,000 compared to \$1,085,000,000 in 1958 and the previous high of \$1,424,000,000 in 1957. The current account deficit with the United States was larger, while the current account surplus with the United Kingdom was smaller.

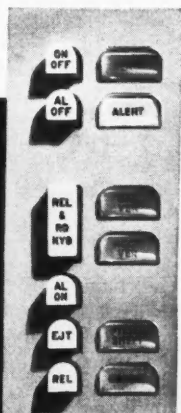
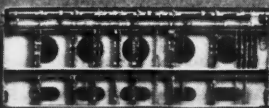
Editor of Students Department

Beginning with this issue, Derek C. R. Horne, C.A., F.C.I.S., will edit the Students Department of *The Canadian Chartered Accountant*. Mr. Horne, a member of the Institute of Chartered Accountants of British Columbia since 1951, is also a member of the Institute of Chartered Accountants of Quebec. He practised public accounting for a brief period before being appointed secretary-treasurer and director of education of the Institute of Chartered Accountants of British Columbia in 1953. In 1957 he took up his present duties as personnel manager with Ross, Touche &

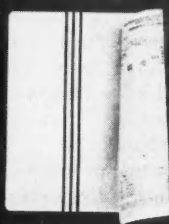
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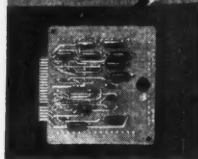
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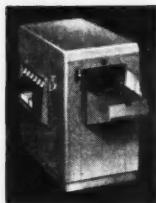


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Continued from page 428

Co., Montreal. He served with the Canadian Army from 1939-42 and with the R.C.A.F. from 1942-45. He is a Fellow of the Chartered Institute of Secretaries.

American Institute Appointment

Dr. Maurice Moonitz, professor of accounting at the University of California, has been appointed director of the expanded accounting research program of the American Institute of Certified Public Accountants. He will take over his new post on July 1. The accounting research program, according to a statement made by the president of the Institute, is likely to cause changes in "generally accepted accounting principles" affecting not only the profession but every organization concerned with the preparation or interpretation of financial statements. Dr. Moonitz has served as chairman of the committee on accounting theory of the American Accounting Association. He is a contributing editor of the Accountant's Handbook and a co-author with C. C. Staehling of a two-volume text in advanced accounting. He received his B.S., M.S. and Ph.D. degrees from the University of California.

Security Transactions

A net capital inflow of \$627,000,000 occurred in 1959 in transactions in stocks and bonds between Canada and other countries.

American Institute Nominations

L. M. Pilié of New Orleans has been nominated as president of the American Institute of Certified Public Accountants for 1960-61. Vice-presidents proposed are Herman Bevis, New York; C. V. Heimbucher, San

Francisco; H. L. Luther, Houston; and E. W. Norberg, Minneapolis. T. D. Flynn, New York, has been re-nominated as treasurer.

Noma International Conference

"New Dimensions for Office Executives" is the central theme of the 41st International conference and office exposition of the National Office Management Association meeting at the Queen Elizabeth Hotel in Montreal from May 22 to 26. Keynote speaker for the conference will be H. H. Lank, president of Du Pont of Canada Ltd. Papers and panel discussions will be devoted to the four main divisions of the theme: general administration; systems, methods and procedures; office services; and personnel administration.

In the News

V. W. T. SCULLY, F.C.A. (Ont.), has been appointed president and chief executive officer of Steel Co. of Canada, Hamilton.

M. H. GIRARD, C.A. (Que.), has been elected alderman of the City of Verdun.

CURRENCY EXCHANGE RATES

The following nominal rates of exchange are supplied by The Canadian Bank of Commerce, International Department, Head Office, Toronto, as at 4 p.m., March 31, 1960:

Australia (pound) 2.15%; Belgium (franc) .0193; Denmark (kroner) .1394; France (franc) .1955; German (d. mark) .2301; India (rupee) .2025; Italy (lira) .00156; Mexico (peso) .0769; Netherlands (guilder) .2544; New Zealand (pound) 2.69%; Norway (kroner) .1346; Sweden (kronor) .1855; Switzerland (franc) .2212; Union of South Africa (pound) 2.70; sterling in Canada, 2.68%-2.69%; sterling in New York, 2.80%-2.81; U.S. dollars in Canada, 4%-4% discount.



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CORRESPONDENCE



Vancouver, B.C., March 14, 1960

ACCOUNTING EDUCATION PROPOSALS

Sir: It is not possible to talk to chartered accountants about the educational programs of the Institutes of Chartered Accountants in Canada without forming the impression that accounting education is a matter to which we all give considerable thought. This being so, it has been suggested that, if I were to provide a brief outline of educational proposals currently being considered, general interest in the subject would warrant its publication in *The Canadian Chartered Accountant*.

So that education might be more continuously studied on a long-range basis, the Committee of the Provincial Institutes on Education and Examinations set up, at its meeting of September 1958, a standing Sub-Committee on Long Range Educational Planning. The remainder of this letter will be a condensation of the views developed by the sub-committee during its first year in existence, as reflected in its report of August 1959 to the main committee.

In the belief that future educational requirements should be related to prospective needs, the sub-committee took its first task to be that of considering the likely trend in services required of chartered accountants. Growth in complexity of business and size of establishments have raised greatly the qualitative demands made of accountants, probably more rapidly than has our competence to meet them. This trend is likely to continue and, if capacities are not increased (including specialization), the demand-capacity relationship will worsen. Demand for quality will equal every well-directed effort that may be made toward its improvement.

The more obvious means that may be employed for improving standards of education and training were considered. Certain of these, while admittedly important, do not appear to lend themselves to the finding and application of practical yard-

sticks on a national scale. Certain others, while not subject to that disability, seem to offer insufficient potential to be relied upon as the main long-term vehicle. The limitations seen in other means led the sub-committee with more assurance to recommend that a university degree become the educational requirement for admission.

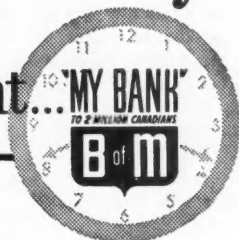
While a profession may not with impunity sacrifice quality to quantity, one should not ignore the effect that measures for improving quality may have on the profession's capacity to meet quantitative needs. As concerns supply, the number of chartered accountants has been increasing much more rapidly than other professions for several decades. (Between the census years 1931 and 1951, Canada's population increased 35%, the civilian labour force by 26%, professional workers (excluding accountants) by 51% — ranging from 71% for engineers to 12% for lawyers and notaries. During that 20-year span the number of chartered accountants increased by 205%, from 1,479 to 4,508. That the increase has been at a more rapid rate since 1951 is demonstrated by the present membership of about 9,000.) It is axiomatic that no segment of the labour force may continue to increase indefinitely at a more rapid rate than the whole. In the sub-committee's opinion, the economy is unlikely to sustain continual percentage increases in the number of chartered accountants of the proportions that have been taking place without incurring some economic waste through acceptance (by necessity rather than choice) of work that should require less training and experience.

Visualizing complete transition to a university graduation requirement in 1970, the sub-committee in its report expresses views and makes suggestions toward that objective. Generally speaking, however, it is believed that transition is basically a matter to be worked out by the Provincial Institutes and individual firms, having in mind problems and avenues peculiarly applicable to their circumstances.

Continued on page 434

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Continued from page 432

At its meeting of September 1959, the Committee on Education and Examinations approved in principle the sub-committee's recommendations respecting the educational requirement and the year in which transition to that requirement should be completed. Two points should be emphasized: (1) inasmuch as the recommendation was not in precise terms, the approval could only be equally indefinite; (2) the members of the main committee were not asked to express approval on behalf of their respective Institutes.

The Councils of the Provincial Institutes are considering the sub-committee's 1959 report. Meanwhile, having received some encouragement to engage in further exploration along the lines it had chosen, the sub-committee is occupied in an endeavour to refine its broad recommendations. (Its current deliberations have to do with such matters as type of university degree and course content.) If the main committee, at its meeting this autumn, considers that it has received a good specific recommendation, the matter would then become one on which the Provincial Institutes would have to come to a firm decision. It seems reasonable to suppose that members would hear more about the matter and have opportunity to discuss it before decisions are taken by the Institutes.

W. F. MARTIN, F.C.A.
*Chairman,
Sub-committee on Long-Range
Educational Planning.*

Saskatoon, Sask., April 5, 1960

AUTHOR'S CORRECTION

Sir: Attention has been directed to an error of omission in an article entitled "Public Accountancy Legislation in Canada" written by me and published in the February 1960 issue of *The Canadian Chartered Accountant*.

My article, as implied in the title, deals with legislation as it affects practising public accountants. However, exhibit 1 digresses from the main theme of the article by presenting a tabulation of professional accounting organizations that are currently

active in Canada. The Certified General Accountants' Association of the Province of Quebec should have been included in exhibit 1.

That association operates in the Province of Quebec under a Quebec statute, 10 George VI Chapter 89 passed in 1946, entitled "An Act to Incorporate the Certified General Accountants' Association of the Province of Quebec". Under this law the professional status of the Association's members is recognized, and they are entitled to use the title "Certified General Accountant" and the letters "C.G.A." after their names. However, they are not permitted to practise in the province as public accountants, as that term is defined in the Quebec "Act to Regulate the Practice of Accountancy and Auditing", passed in 1946.

I regret this omission and hope that you will take an early opportunity to publish this correction.

J. R. E. PARKER, C.A.

Toronto 16, Ont., Feb. 25, 1960
VALUABLE READING

Sir: We have long felt that the tool of progressive business management is good accounting, and we are constantly urging our distributors and dealers to pay adequate attention to this area of the business.

In order to discuss standardized accounting procedures and up-to-date business methods, we have called all senior accounting officers of our distributors to Toronto for a three-day seminar at the beginning of March. We will also take this opportunity to familiarize these men with interesting literature on accounting and business management, and will urge them to subscribe to pertaining magazines and periodicals in the field.

The Canadian Chartered Accountant, in our opinion, would be valuable for all companies represented at this meeting. We would, therefore, appreciate receiving 25 copies of the latest issue available for distribution.

ALFRED H. BEHRENS
*Chief Accountant,
Volkswagen Canada Ltd.*



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Before you invest, investigation is good common sense. After you invest, investigation is also good common sense. "See your dentist twice a year" is not propaganda . . . it is preventive dentistry. Most people think it good business to check trouble before it starts or, at least, before it becomes serious.

To have your investment adviser check your securities at regular intervals makes sense too. Conditions change, industries change, markets change. To "put them away and forget them" is not good . . . it's not good for teeth, and it's not good for securities.

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Editorial

BROADER PROFESSIONAL EDUCATION

THE EVIDENCE of a person's education is not the mass of facts that he has accumulated but his ability to think and act intelligently on the basis of his acquired knowledge. Many mistake the gathering of knowledge for a true education and seem to forget that the inability to use ideas in a creative way may make a person's fund of knowledge as useless as an unopened encyclopaedia. In a talk given before the Ontario Educational Association some years ago, Lord Tweedsmuir covered this point well when he said, "I think that we often tend to exaggerate grossly the value of knowledge as such. The object in education is to train the mind, not to crowd the memory."

As practising accountants, a part of our time is spent in the instruction of students. The early years of an accountancy student are spent in the gathering of facts about the methods of accounting, finding the position that accounting takes with respect to law and economics, and learning to communicate in accounting. Have we arrived at that stage in our student development program where we should again extend the coverage of our courses of instruction, particularly in light of the suggestion that the C.I.C.A. Sub-Committee on Long-Range Educational Planning has recommended to require a university degree before students may enter classes preparatory to becoming chartered accountants? Increasing the scope of our present course of instruction by additional lectures in each of the years might only add a burden, possibly at the wrong time in the course. What would happen if we were to change the pattern so that the periods spent in pure instruction were more concentrated, and the periods spent in thinking and developing ideas were greatly expanded?

As we look around at the studies being carried out by other accountancy bodies, we have the feeling that they also are concerned about the scope, coverage and timing of their courses. Some have

considered putting a period of full-time instruction in the middle of the course. It is no doubt true that considerable development could occur if full-time instruction in a university took place at that particular phase of the course; however, there are other advantages, possibly largely administrative, which might encourage us to at least consider a concentrated period at the commencement of the course of instruction.

Although in the early stages there is the possibility that certain practitioners would notice the absence of students during the first year of training, there are many others who in their daily practice indicate that they would prefer to deal with a better-trained student if that could be arranged. Concentrated training in the early years would provide for an easier integration into the ways of the profession to the benefit of both the student and the practitioner.

Broader professional education is desirable, but it can only come about by changes in our present approach. Many feel that our students should not be required to cover an increased number of lectures with increased subject content, in order to provide for additional courses of instruction in the time saved. Furthermore, it has often been suggested that professional educators should handle some part of the student's training.

Inasmuch as our daily practice is indicating that we have little use for the completely untrained student, whether matriculant or Arts graduate, what better use could we make of the early part of the student's life than to put him in the hands of professional educators? In so doing we may reduce the time spent in learning about the tools of the profession and extend greatly the period when development of accounting thought is possible. An approach such as this might be a step to help the new graduate to become more valuable to his employer and better equipped to take his proper place in leading the profession in the next generation.

Manpower Planning

CHARLES R. ARMSTRONG

OVERRIDING all thoughts on manpower planning today is the concept of change. Looking back and looking ahead, one of the most striking characteristics of the industrial scene is the rate of innovation. This has had and will have an important impact on the constitution of industrial personnel and the type of talent that must be planned for. Estimating for the future by straight-line projections, considering growth but ignoring the effects of change, would be wasted effort and usually misleading.

Manpower planning, to be effective and useful, must be concerned with considerations of the quantity, quality, cost and motivation of the people needed for the size and nature of the business for some time in the future. The objective is to lay the groundwork and prepare outlines of ways and means of assuring, as well as can be done with the uncertainties that are involved, that the enterprise has available at all times an effective working force for doing what has to be done for economic health and progress. A reasonably clear picture of what will have to be done is therefore the basic starting point. Thus the emphasis is on the need for an appreciation of the probable effects of change.

Manpower planning takes into consideration the relationships developing between the supply and the needs. Changes in the nature of supply may also be expected. The competitive demands for labour with specific abilities and potential by government, educational institutions and industry have affected this relationship from time to time. One recent example was the demand for graduate engineers which far exceeded the output for a few years. Again a broad understanding of what is going on, upon which to base a practical outlook for the future, is part of the background necessary for intelligent manpower planning.

Two general factors seem to be dominant in shaping the trend of industrial personnel requirements. One is scientific; the other is economic.

Science: Pure and Applied

Everyone is familiar with the impetus given to research in the many areas of pure science during and since the war. Government, with its defence requirements, has been largely responsible. At the same time, grants to universities for enlargement or the establishment of new centres have been enormous, and industry has entered the field in a new way. Who would have thought, a number of

years ago, of industry competing with universities and government for the services of doctors of philosophy in science? It would be interesting to know how much consideration of such things got into the planning some time back. In many industries it has been an important and difficult phase of the job of providing the needed talents and skills. More advanced planning and, with it, more time for preparation and selection might have helped.

Another growing group of people, applied scientists, development engineers, or whatever you may choose to call them, take over and with the new knowledge do some very wonderful things. New materials, products, gadgets and principles of production are coming on the scene at an ever-increasing rate. With the pressure for diversification, product competition may strike from unsuspected places. Progressive, or even defensive management, call for the planned inclusion of specialists who can guarantee the enterprise is kept up to, or a little ahead of, the times.

A third group, with which most of us are more familiar, take what has been developed so as to examine and evaluate for specific application. Capital investment, availability and costs of funds, market research, net revenue probabilities, plant locations and a host of other considerations have their place in policy determination. Nearly everybody gets into the act, and so should those responsible for manpower planning.

Some may possibly sense a certain artificiality or lack of realism in setting up three distinct groups for pure research, applied research and application. They have been included here not to develop an argument, but to

illustrate a principle. They can be regarded as differing functions, and it is the responsibility of manpower planning to see to it that the industry has the specialized knowledge and skill necessary for each function. It is partly a question of organization and its structure, and partly the provision of human talents that will carry the various functions through to their required objectives. The differentiation of human talents and their procurement is the stock in trade of the manpower planner and provider.

Ignoring these differentiations and their implications has sometimes led to trouble. For example, the pure scientist is noted for his high ethical standards and his obstinate demand for independent choice of areas of investigation. Organizational pressure on him for speedy results to be translated into profitability has, more than once, brought on frustration, uncooperativeness and resignation. The method of planning can be assessed some of the responsibility for the unfortunate result. Failure to take into consideration the part the function is to play in contributing to the main objective of the industrial unit and to plan the manning with people whose abilities and attitudes will fit the circumstances can lead to costly waste. Lack of clear statements of objectives can leave the planning in a state of helpless vagueness.

Economic Factors

Economic pressures are making industrial change not only advisable but imperative. The high cost of labour, shortening hours, and increased demands for goods and services will force innovations whereby machines take over functions formerly done by manual labour. Not so long ago the

assembly line and mass production revolutionized productive methods on this continent. Now the manned assembly line is gradually becoming obsolete. Machines to control machines are the order of the day. Material handling, routine judgment, machine setting, and data processing can be done by machines in a fraction of the time and often at much lower cost. The demand on personnel is changing from manpower to brain power.

According to some estimates, the proportion of salary cost to that for total labour in manufacturing rose from one-quarter to one-third in a ten-year period. All types of industry did not share equally in this changed relationship. It does illustrate that a major overall change has been taking place. The trend is on. Some time ago the General Electric Company forecast a doubling of output with an 11% increase in total staff. The proportion of professional and managerial personnel to the total accounts for nearly all the increase to the salary group. Manually-performed operations are lessening and, in some instances, almost disappearing from large segments of industrial operations.

It does not follow that the gradual introduction of automation will bring on large-scale total unemployment. The telephone industry's change from manual to automatic handling of calls was accompanied by an increase in the operating force. The rising demand for the product, in this case telephone calls, more than compensated for the reduction in labour per unit of production. This process is still going on. It may be taken as illustrative of what may happen with the introduction of more automation in the whole broad field. People, in large numbers, will still be required,

but to do different things and to produce more goods and services.

With these thoughts in mind, one of the most obvious effects of scientific and economic developments for our subject is that planning must anticipate a change in the overall mix of human talents and developed abilities and skills to make things go. The rise in the average educational standard of those who will enter the labour market from now on looks like a favourable trend. The old cry of who is going to do our menial tasks has less meaning. There will be fewer to do. As the demand for unskilled and semi-skilled labour lessens, that for people with natural and trained mental ability will increase. Planning for this calls for a re-appraisal of traditional recruiting and selection methods. The source that adequately filled clerical tabulating methods may not be suitable for programmers for electronic computing.

Need for Abler Managers

Probably enough has now been said about the need for preparing for an increase in the professional and technical elements in the manpower situation. It is time, then, to turn to another growing need that may be even more difficult to handle. That is, for more and abler industrial managers. Peter Drucker and others have been proclaiming for years that industry will need not only more managers, but that there will be increasing challenges on their abilities. Just as change is inevitable, so is the fact that change is the most difficult phase of industrial activity to manage well. It calls for men of competence in weighing the factors that lead to sound judgments, with broad understanding, with the kind of imagina-

tion that can look forward accurately to the unknown future, and who have the qualities of leadership that can reshape organizations, made up of human beings, into well-knit units stimulated for the job ahead. Trusting that such men will appear on the scene when and where required, without planning, looks like a large and unnecessary risk.

A recent experience with which the writer was associated showed up a situation that may have been sufficiently dramatic as an illustration of the above situation. A carefully prepared forecast of the economic trends and their probable effect upon future demand was already available. Method changes foreseen for some time in the future were examined. These were translated into functions that would have to be carried out to meet the organization's objectives. The manpower demands for these functions were estimated and an organization structure providing for their correlation into an effectively working whole was set up. From this the growth in management personnel for varying periods was estimated. At the same time, the present managerial personnel situation was being examined. The age distribution from which losses can be forecast was a critical factor.

Now this was the picture for one level of middle management of the organization. Present establishments, all filled, numbered 485. When requirements for growth were added to impending losses and promotions to higher-level jobs, it was found that 600 men would be needed to move into this level or this group in the next ten years.

This was related to the results of a management qualitative inventory that had been built up from perform-

ance reviews made over a period of years. There were not enough people ready for the 600 key positions on the basis of the most careful judgments that could be applied. A general assumption from this picture is that, in addition to providing developed technical personnel of a high order, there may be a more difficult problem in finding enough suitable management people with qualifications to run and guide the business. Admittedly the standards have been made high, as they must. They might be related to the quality Peter Drucker calls for in this passage: "The manager's performance rests on his ability to make people capable of contributing more skill, more knowledge, more efficiency, more dedication and more of themselves and grow into bigger people in the process." It will take high quality personnel to measure up to these standards for management.

Development of Managerial Talents

The planning started with a reappraisal of those influences prevailing in the organization that stimulate the development of the qualities sought in people with high capacity. A starting place might be a more forceful stressing of the accountability of managers for the development of the personnel under their direction. Without sacrificing too much attention to the details of daily direction, much can be done through planned delegation, taking advantage of opportunities for participation in considering factors that enter into judgments beyond those of the present job, job rotation for experience and increasing the breadth of view, motivation stimulation in personal contacts, coaching and many other things. These will not happen unless the problem is appre-

ciated, objectives set and a clear understanding reached that they form a part of the planned activities of the business.

Training for the development of management skills presents some peculiar difficulties, but the stakes are too high for failure by default. In-plant formal courses covering management and organization principles can be made stimulating. This is particularly so if people on widely differing functions, and therefore with different interests, can be brought together for give and take in solving problems broad enough to cross functional lines. This can at least mitigate the effect of the biasing tendencies that are likely to be formed through constant concentration on a relatively narrow specialty and that can effectively block the kind of personal development being sought. These are just hints; the subject is too involved to be dealt with here.

The return to university and the university atmosphere seem to do something with certain people. Opportunity can be taken of the brief courses designed for the rising executive. Time and money spent on key personnel may be well worthwhile as part of the plan.

In the tone of much of what has been written in recent years about the make-up of industrial personnel in the future there may have crept in a certain element of exaggeration. What seem to be contradictions appear. We must plan for more and more intensive specialization, yet we will require men of greater breadth, with a knowledge and appreciation of all the pieces and judgment in putting them together into a working whole. We look forward to a period of labour shortage, yet with the many disloca-

tions accompanying major changes, many may be temporarily out of employment.

Planning Without Anxiety

Some of these impressions may come about through the attempt to look at such a broad and moving picture in so short a time. While change on a large scale is inevitable, it will not all happen at once; it may not come too fast. The evolutionary nature of the process seems to have taken care of most of the dangers up to now and we can expect, with some confidence, that this will continue to be the case. It is remarkable the number of checks and balances that come into the picture as we go along.

Planning that may be over-influenced by generalities can be harmful. General conclusions, economic forecasts, etc. are concerned with the total and do not apply directly to any one industry or to any one unit of an industry. It cannot be over-emphasized that manpower planning must be tailor-made for the local situation. To be properly effective, it must be tied in closely with all other phases of planning. Planning to have people to man the various functions will start with a visualization of what functions will grow in size and significance and what new ones may be expected to appear. Only with that as background can an appraisal of resources, within and outside the business, and their relationship to demand be made meaningful. The plans, then, become the introduction of ways and means of bringing the two into balance in proper time. This, as was indicated earlier, may include job and experience rotation, specialized and general training, motivation, recruiting and selection procedures, and other mea-

tures that seem appropriate. These may call for approval for immediate increased costs. Some nice decisions may have to be made regarding the economical time and method of getting prepared.

Nothing in this article can be taken

out and applied directly by anyone. It was not intended to do that. If it has succeeded in calling attention to a problem, suggesting some viewpoints and stimulating a desire for an analytical and intelligent approach, it will have met its objectives.

Early Calculating Machines

The first calculating machine operated by means of numeral wheels was created by Gottfried Wilhelm Leibnitz, probably the most universally scientific genius of modern times. Thirty years after Pascal had produced his adding machine, Leibnitz invented the first desk calculator, designed to compute multiplication and division by means of repeated addition — the essential method of our present-day key-driven machine.

Although the devices contained on both Pascal's and Leibnitz's machines contained the basic principles of the modern machines, 200 years were to elapse before they were sufficiently developed to become extensively useful in computation.

Whilst many patents were issued in both America and Europe between the years 1851 and 1882, particularly relating to the rotary type of machine, it was not until 1884 that a young, poorly paid American machinist, Dorr E. Felt, conceived his idea from watching the ratchet-fed motion of the planer he was working, which could be adjusted to ratchet one, two or three more teeth, for a fine or coarse cut. This method of varying cutting depth, by using a ratchet to turn the thread-shaft, to which was coupled the cutting tool, was to be indirectly responsible for the final solution, so long denied to others, of the multiple order key-driven calculating machine.

Young Felt was bursting with enthusiasm as, day after day, he worked at his bench, his mind for ever dwelling upon the construction of the calculator which eventually was to make history. But, alas! his finances were sadly depleted. Felt records in a letter which he wrote to a friend, "The construction of such a complicated machine from metal, as I had wished to do, was not within my reach from a monetary standpoint, so I decided to put my idea into wood." Anxiously waiting for the Thanksgiving Day holiday, he rose with the sun, and went to work with "only a few tools, principally a jack-knife". The family grocer gave him a macaroni box. With some skewers, which he obtained from the butcher, for keys, some staples from the hardware store for key-guides, and an assortment of elastic bands for the springs, Felt produced the first key-driven calculating machine as we know it today. This wooden model was crude enough but it held the nucleus of the machine to come; and has gone down to posterity as Felt's "macaroni box".

— Sir Curtis Lampson, "Onward from the Macaroni Box",
Accountancy, February 1960.

Operations Research

II. Dawn of Scientific Management

PATRICK J. ROBINSON

IN SOME specialized businesses there have been spectacular increases in production to meet an almost exploding demand. Nowhere has this been more clear than in the firms developing electronic and similar mechanized devices. These increase our information-handling capabilities, and incidentally our ability to produce "paper". Herein lies one of the dangers we must strive to minimize, namely, the risk of "merely going inefficient faster". No increase in speed can make the "wrong" information any more useful. In fact, we may simply have less opportunity to think before we act and so may be done a further disservice.

Today's business administrators face some profound problems of allocating scarce resources among a variety of competing alternatives. They also have to decide on an "optimum compromise" insofar as determining the "object of the exercise". In many cases, the proper measure of success (or criterion) is not a foregone conclusion. In fact, it may be extremely difficult to find a criterion which is accepted by management.

Criteria of Success

Let us consider a few of the alternatives confronting businessmen today

in their roles of "problem solvers" and "decision makers", to use somewhat tired but still useful clichés:

- a) There is percentage share of the market which we might wish to maximize.
- b) Similarly, there is dollars profit which we also intuitively feel ought to be maximized. But we probably cannot maximize both these quantities at the same time.
- c) If we add another criterion in the form of dollars cost of operation, we see a factor we will certainly tend to minimize. But we cannot really minimize this while also maximizing one or other of the first two criteria!
- d) Then if we add another criterion, percent return on funds employed, we further complicate our problem and conflicts. Yet it is certainly another important performance measure.
- e) There are many other measures which might be considered, such as dollars investment per unit of throughput, or unit cost of operation, or even an index of public, employee or government relations. Each has its advantages and drawbacks. They are all different, and it is difficult to relate them to one

another. For example, it is not an easy value judgment to decide how many dollars cost are equivalent to a one percent change in market share. The marginal utilities or exchange rates between conflicting criteria pose a basic soul-searching task for all concerned.

The accompanying illustrations (see page 447) are keyed to the foregoing, and show the need for considering various realistic performance measures and establishing reasonable minimum tolerances for each. The final exhibit of the five indicates the practical necessity of seeking a feasible compromise between the conflicting measures of success by which management is guided.

This is not an easy task if we tackle it seriously and objectively. In relatively short order we may find the major executives of a firm disagreeing on what represents a reasonable "mix". Perhaps the best means of overcoming this difficulty is to estimate the minimum acceptable threshold for values which one may wish to increase and maximum tolerable ceilings for those one wishes to decrease. In each instance, an acceptable dollar amount, unit cost or percentage value should be agreed on.

Role of the Accountant

There are two illustrations of the conflicts and interdependence of criteria of success, and both are essentially self-explanatory. While some of the measures illustrated may not apply to a specific case they represent all the essential quantitative elements commonly confronting business. The question of how to measure some of them or how to set reasonable goals may be of prime importance to accountants.

It may be that accounting responsibility will have to extend into areas which have previously seemed of little interest, or were at best "grey areas". Someone has to accept responsibility for helping provide concrete guides and adequate information to support management's stewardship and control.

Is it possible that almost overnight there must evolve a new generation of data gatherers and business analysts? Are there services to be performed routinely which are rapidly being assumed by other functions and which may in a few years displace more common forms of accounting? If so, what is to be done about it? Clearly, looking the other way will not cause these developments to go away. On the contrary, they are apt to really "upstage" today's financial and related accounting services.

This is the challenge. Furthermore, the current business evolution may call for a true accounting revolution if this apparent shortcoming is to be turned to advantage.

Pathfinding Through Research

In resolving our dilemma, it may prove helpful to examine rather carefully some relatively new approaches being offered to management. Most of us will recognize these under the titles of either "the management sciences" or "operations(al) research". Perhaps we should think of these pioneering (and at times controversial) staff activities as being the research explorers. What is research today may be routine analysis tomorrow, and these people can proceed to break additional fresh ground in the search for improvements. It is simply up to us to recognize the analytic and managerial aspects of ac-

(a)

DEFINING THE "OBJECT OF THE EXERCISE" OR CRITERIA OF SUCCESS



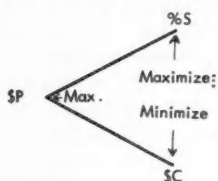
(b)

DEFINING THE "OBJECT OF THE EXERCISE" OR CRITERIA OF SUCCESS



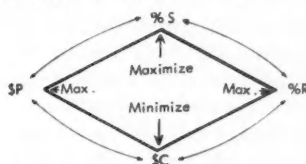
(c)

DEFINING THE "OBJECT OF THE EXERCISE" OR CRITERIA OF SUCCESS



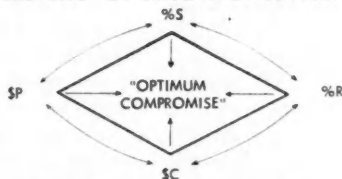
(d) and (e)

DEFINING THE "OBJECT OF THE EXERCISE" OR CRITERIA OF SUCCESS



OTHER QUANTITATIVE MEASURES OF PERFORMANCE ALSO EXIST AS WELL AS QUALITATIVE ONES SUCH AS PR, ER AND GR AND THEY ARE ALL BASICALLY INCOMMENSURATE IN TERMS OF EQUIVALENCES.

DEFINING THE "OBJECT OF THE EXERCISE" OR CRITERIA OF SUCCESS



UNLESS THE "MARGINAL UTILITIES" OR "EXCHANGE RATES" BETWEEN THESE CONFLICTING CRITERIA CAN BE DETERMINED OBJECTIVELY THEN A SUBJECTIVE BALANCE OR COMPROMISE MUST BE SOUGHT.

counting, plus the data and information-handling implications of these advances.

Some things may lead themselves to incorporation within the accounting framework (e.g. some forms of value analysis, systems simulation and mathematical programming) whereas others may be more properly left for other professional groups to fully develop and exploit. Accounting firms can accelerate this process by extending management services to encompass some or all of these new scientific aids.

It may well be that "management by exception" and "responsibility accounting" will be similar to the newer techniques of measurement and analysis. In any event, let us examine the whole spectrum of research in business from which we may borrow and build to meet our increasing responsibilities and new challenges.

Perhaps a few rhetorical questions will facilitate our review:

Q. What is operational (or operations) research?

A. Perhaps the simplest definition is best although it leads to another question: operational research is what management scientists do! What we really mean when we use terms such as "operational research" and "management scientists" in connection with helping management solve involved problems can be stated quite simply. We are concerned with gaining fresh knowledge and objective insights into the existence of general laws or relationships which may exist in business. These may not be obvious or, even when recognized, may not be easy to measure. However, it is not enough to know, in making important decisions to-

day, that such-and-such may happen on purely intuitive or subjective grounds. We need, and can get, sound qualitative and quantitative evaluations scientifically. With these we may size up risks and compare alternatives better than ever before.

Q. What is a management scientist?

A. He is a professionally trained researcher working on problems in management and business administration. It is his aim to aid industrial managers in their appraisal of complex problems in order to help them run their business most effectively. When a manager is confronted with many alternative choices or decisions in a major problem, he must rely on experience, judgment and intuition. But sometimes even these may not be adequate to determine the best business tactics or strategy to follow. Whenever possible, it is desirable to systematically reduce the feasible alternatives to a manageable number for final review and action. This can be done through careful study and by weighing the odds and risks for each as objectively as possible. The executive must still make the decisions and assume responsibility but may be aided in this decision process by having the choices narrowed to the most promising alternatives. He may then select from among these based on the pre-calculated chances for success plus other factors of a more subjective nature which may be involved. Thus, the quantitative and qualitative considerations can be reviewed together in order to determine the best course of action for the organization as a whole.

Q. *Does this mean that the task of managing and making decisions is changing?*

A. Yes, there are signs of this. Progressive managers should have more time available to plan and consider developments. They should also have an increased awareness of the probable consequences of alternative courses of action; they may develop new insights into their own business operations and the impact of their decisions on the overall corporate well-being.

Q. *On what sort of problems would a busy manager likely require assistance from an operational researcher or management scientist?*

A. A typical situation might be one in which a manager is responsible for directing certain limited resources and must use them to best advantage to achieve some desired objectives under conditions involving uncertainty or risk. The resources would probably include people, money, physical plant, products and information. The objectives or measures of success might be maximum dollar profits, highest-market position, desired percent return on capital employed, lowest-cost operation, or some more intangible aim, such as best possible public or employee relations. Most often the so-called "optimum" or best performance to strive for is really an "optimum compromise" or blend of these and other considerations. It is seldom easy to state the so-called "object of the exercise". This involves rather careful weighing of often conflicting measures of success. For example, one cannot usually achieve both the highest overall

sales volume and the lowest total cost of an operation simultaneously. It is almost always possible to keep increasing sales by adding expenses, even beyond efficient limits. The opposite is usually possible too. One may usually continue reducing costs somehow but almost certainly will also lose sales after some reasonable minimum is passed. Because of the variety of interacting considerations, it is often not clear where a stated policy will lead without thorough understanding of the implications plus careful testing.

Perhaps a few illustrations of what operational research or O.R. is not may help us focus on what we think O.R. really is. Here is a list of familiar industrial staff activities which may be related or complementary to operational research. In fact, O.R. may sometimes spring from one of these activities in its natural evolution:

a) *Product and process research* in laboratories is certainly scientific and provides a good, long-established parallel activity which works on the basic behaviour of substances and changes in the technology of manufacture. In the petroleum industry we may also have scientists studying improved methods of finding and producing crude oil, and these efforts involve both laboratory and field-work somewhat similar to that applied to manufacturing and improvements of products and processes.

b) *Market research and sales forecasting* are principally "limited objective" activities aimed at gauging the characteristics, size and trends in markets for company products and competition. In the usual forms these functions concentrate on numerical or graphical projections, studies of buy-

ing habits, and field surveys to obtain information and data for sales and advertising managements. This is used as tactical planning material or simply as "background".

c) *Industrial relations research* is another special interest staff function aimed at improving methods of job evaluation, man-rating or selection and training techniques. It is usually concerned with studies of formal organization structures and job descriptions, wage, salary and benefit plans and the development of "batteries" of psychological tests for screening and reassigning man power.

d) *Other specialized industrial "research"* includes legal, medical, public relations and financial "literature-searches" and evaluations of interrelated circumstances and evidence, and evolution of "better ways of doing things". These activities support the professionals in these areas in their preparation of reports or cases and opinion or performance ratings. In much the same way as industrial relations research, these searching investigations are aimed at yielding better bases for decisions in well-defined specialized aspects of corporate management well-being. While they may not always be "scientific", any more than some of the other areas mentioned, they are almost certainly well-established keystones in most modern industrial concerns.

e) *Economic and statistical "research" or analysis* usually leaves scientific activities aside and concentrates on applying tried and proven economic and engineering technology (which usually stemmed originally from good common sense and research). Here are employed accepted procedures and fairly routine practices to analyze reasonably well-de-

fined problems, sift "facts" and figures or size up alternate cases. This is a vital aid of a day-to-day character and is generally working within clearly prescribed boundaries. The problems are well defined, with goals which are often intuitively clear and sometimes already known approximately.

f) *High-speed data processing and computer applications of mathematical techniques* to on-going activities often verge on O.R. work in complexity, but, in contrast, need not question the problems or applications designated for study. The principal concern in this work is to avoid what Peter Drucker calls the dangers of "merely going inefficient faster". In electronic computer feasibility studies and systems evaluations, a thorough planning and programming activity usually uncovers many vital business research problems. These should often be the subject for O.R. studies which may or may not require the use of electronic devices or refined mathematical techniques in their solution.

g) *Industrial engineering and statistical quality control* are names that many of us recognize as having to do with applied science in the improvement of manufacturing process efficiency and more consistent product quality. In many industries these related activities use mathematical and statistical techniques as well as better means of measurement to improve management information and control in manufacturing operations, usually along well-established or even "cook book" lines. (This latter practice, while prevalent, is often dangerous!)

A very recent definition of O.R. is contained in a 1958 report of a NATO Conference entitled "Operational Research in Practice". If we do not care

for some aspect of the formal wording, this need not be awkward since we do not need to agree in detail but simply to gain a useful impression to put us "into the picture". This is a working definition by Kittel and Goodeve: "*Operational research is the use of scientific method in providing executive departments with a quantitative basis for decisions regarding the operations under their control.*" Even more briefly this might be stated as "*scientific preparation for decision in the face of uncertainty*".

In thinking of the vast variety and importance of business decisions facing today's senior executives in industry, we must recognize that probably no more varied and involved demands are ever made on man's ingenuity and resourcefulness. The manager of today meets problems involving systems, people, resources and products in various combinations. If he sees the need for research on problems and future plans, he must be provided with an appropriate variety of competent scientifically trained people. Only in this way can objective evaluations of physical systems, human behaviour and mathematical relationships be blended into practical aids and inspiration to modern management. Likely the most desirable organizational goal will be for restricted "research" and "analytic" functions to exist side-by-side as they may today in each operating area or major department of the firm.

Added to this there should probably emerge a similar side-by-side pair of departments at the general corporate level. They are fundamentally different in concept and approach, yet both can prove invaluable aids to progressive management. One should be devoted to routine analysis and general

economic studies and the other to operational research. The former group should be concerned with helping executives answer fairly immediate (and medium-range) important operating questions and report on changing business conditions. The latter group should aim at systematically enriching the company's knowledge and control of its environment, resources, systems and competitive practices, with the emphasis on long-range planning, "blue sky thinking" and "pretesting" of alternate major operational tactics and strategies. While survival is a problem of "today", success is a problem of "tomorrow", and one cannot progress without both. If either is missing "formally", it must be already going on "informally". This is likely not fair to top executives or operating managers when they can have their burdens reduced by competent staff work helping them with their problems.

The Scientific Method

"The scientific method" is the one all-inclusive description of a point of view or method of attack on problems. The management scientist starts with management's statement of the problem and at this point asks many questions (often seeming irreverent) about the problems and operations under study in order to attempt to determine any underlying causes or relationships. From this he may formulate some basic notions or hypotheses about what requires study. He then evolves research objectives on which to design experiments or observational studies to test and so support or set aside the hypotheses. Once this approach has been outlined, he must discuss the research plan with the managers concerned to see whether the research objectives and results

would appear to be worthwhile *prior to it being done*. Business research cannot be purely academic in its problem-solving. It must be clear in advance of the scientific work that the outcome of such research would be almost certainly well-aimed and of importance as an effective basis for making decisions and taking action. This basic method of operation may be set forth in a series of practical steps as follows:

1. To help recognize and define a problem clearly before we do research on it.
2. To set practical research objectives for the problem so that management may assess in advance what to expect when the work is done.
3. To develop a comprehensive picture or "model" of the problem area under study so that any significant aspects of the research are not overlooked.
4. To use an efficient research plan which will provide adequate evidence upon which to base valid conclusions. This may require carefully designed experiments, observational studies or surveys to help gather the necessary data.
5. To analyze these conclusions in the light of the research objectives and present to management clear-cut recommendations as a basis for action.
6. Finally, to provide management, and the operating personnel concerned, with adequate support in seeing that all feasible research findings are put into practice.

Many of these vital functions might be likened to the practice of medicine. The general practitioner is well equipped with proven techniques, valuable experience and facilities to tackle many important cases. Occasionally,

he calls in more specialized talent to assist him or take cases for him involving surgery or other skills. Here the G.P. and the specialists are analogous to many established professional business staff activities. However, there is another group in medicine whose task it is to add to basic knowledge in medicine through research and also undertake particularly involved, long-range and unusual cases. Such efforts are usually centred in clinics, institutes and laboratories where there is a combination of skills from a wide variety of scientific fields or disciplines, many outside the medical profession itself. This mixed-team or so-called inter-disciplinary team of specialists is comparable to an O.R. or management sciences group. The O.R. approach cannot rely on following an accustomed pattern or routine analytic procedure. In fact, once a type of problem-solving becomes repetitious, it is, by definition, no longer research, and the researchers will leave such technology for the use of others and move on to new and challenging problems in other areas.

Where May We Go From Here?

Accountants are very responsible and skilled professionals who have built an enviable reputation helping other people with their problems. They have evolved outstandingly flexible and universal "models" of business in the form of the financial books and statements of the firm. These general purpose (and specialized) accounting models have earned acceptance by most segments of industry and commerce. Almost everyone in business at least thinks he understands something about these financial analogues.

The real problem and challenge to the profession is to evolve more suitable and usefully descriptive models of business for analytic and control purposes. To achieve this, management's real goals must be carefully studied and understood so that more reliable guides to decision may be prepared. Questions of what represent "significant" differences in performance or departure from expected values deserve closer attention. At present we live in the midst of an over-abundance of irrelevant, sometimes ill-conceived and often misunderstood statistics and statements. Everyone wants "the facts" so that he can "prove" his point. This is seldom fruitful or likely to shed much light on problems. We often see "management by force of personality". If this is to change, we must find something better to offer than conflict and uncertainty.

If, for example, more appropriate measurements can be made for specific business purposes, more powerful techniques of analysis will be justified. The practical potentials of high-speed data processing and electronic computing may then be realized. Furthermore, improved models of business operations can permit more reliable "tests of sensitivity". By this we mean that the probable impact of feasible alternative decisions may be pretested in terms of their expected effect on output quantities of interest. This permits separating the input factors which have a considerable bearing on results from those of lesser consequence. This leads to improved direction and control of the key factors,

and perhaps relaxation of attention to details of lesser importance.

Above all, the preparation and implementation of new records, systems and methods must eventually be justified by demonstrated needs and payoffs. If, on examination, information is requested or analyses prepared which will likely not lead to action or decision, a pitfall exists. Most such matters fall into one of two categories: bases for action versus file material. There should be as little of the latter as possible.

Again, we must employ foresight. The estimated worth in advance of preparing such data may be somewhat facetiously but appropriately obtained by the "so what" test. The questions to ask are: what could be done on the basis of this information if obtainable, and how appropriate is the suggested approach once we see the need?

This search for better understanding is a two-edged sword. It cuts both ways. Management's responsibility is to become increasingly objective and aware of the natural laws and interactions affecting business, and so recognize basic information and control needs. Accountants must demonstrate that they are moving ahead in understanding and reflecting the "health" of business and the timely ebb and flow of resources and results.

Through appropriate co-responsibility, the practice of management will be advanced as today's research becomes tomorrow's applied science. But, if this is the outlook, then are we prepared to accept the challenge?

Operation of a Business in Bankruptcy

HERBERT G. GORDON, C.A.

A PERSON or a corporation can become bankrupt either voluntarily, through making an assignment under the Bankruptcy Act, or involuntarily, through a petition being filed by a creditor or creditors, and a receiving order being made by the court. When a receiving order is issued against an insolvent debtor, the name of the trustee requested by the petitioning creditor is inserted by the official receiver. In the case of an assignment, the name of the trustee suggested by the solicitor for the debtor is inserted. The trustee so named proceeds with the administration of the estate until the first meeting of creditors, at which time the latter may confirm his appointment, or by special resolution may appoint or substitute another licensed trustee.

The trustee of a bankrupt business usually follows the routine set down in the Bankruptcy Act. He takes possession of the books and records, completes an inventory, verifies the bankrupt's statement of affairs, advises all known creditors of the bankruptcy, and attends the first meeting of creditors. After his confirmation as trustee and the election of inspectors, he proceeds with the realization of the assets of the bankrupt. Generally speaking,

the assets of the bankrupt are sold by tender or auction sale, or in any other manner which, in the opinion of the trustee and the inspectors, realizes the maximum amount for the creditors.

Occasionally, a situation arises where it appears to the trustee to be advantageous, from the standpoint of the creditors in general, that the business be temporarily carried on in order to realize the maximum amount from the assets available. When this occurs, section 8(7) of the Bankruptcy Act provides that "the trustee may, when necessary in the interest of the estate, carry on the business of the bankrupt until a date fixed for the first meeting of creditors". Following the first meeting of creditors and the election of inspectors, section 10(1) of the Bankruptcy Act provides that "the trustee with the permission of the inspectors may carry on the business of the bankrupt so far as it may be necessary for the beneficial administration of the estate". When the trustee is considering continuing operations until the creditors meet, it is advisable for him to consult two or three of the largest creditors. If those creditors are agreeable to his proposal, he can then discuss it with the court and obtain the court's approval.

Cooperation of Employees

Before making a decision, the trustee must also consult with the management and the key personnel of the bankrupt. Since he is considering entering into the operation of a business with which he is probably not too familiar, it is important that he secure their full cooperation. It will be principally on their calculations that he decides to terminate or to carry on temporarily. Under most circumstances, he is unable to make an immediate decision and will generally ask the employees to return to the premises a day or two after he has taken possession. The employees are naturally concerned as to the payment of their arrears of wages and holiday pay, as well as their immediate future employment. The trustee can gather them at a meeting and assure them that those who wish to continue until the operations have been completed will be paid any wages accruing during the period of his operation. He should also tell them that claims for unpaid wages at the time of the bankruptcy are given priority under the Bankruptcy Act over all other claims of preferred or unsecured creditors, and that payment of their claims will be made by him as quickly as possible. In most cases, the employees are willing to cooperate.

The decision to carry on operations generally arises where perishable assets are involved or, more frequently, where a substantial portion of the inventory consists of semi-processed goods. For example, if at the time of bankruptcy a clothing manufacturer had dress or suiting materials already cut to fill orders on hand, the expenditure of a moderate amount could convert these materials into finished garments. Thus they are more readily

disposable than materials which have not been cut for a specific purpose.

Decision of Bank

In many bankruptcies the trustee finds that the stock-in-trade has been pledged to the bank as security under section 88 of the Bank Act. Since the bank then owns the inventory, it decides as to whether or not the business should be continued. In most cases it will decide to carry on operations as it can realize more from its security if the inventory can be converted to finished goods than if it is in a raw or semi-processed state. The bank can engage the trustee as its agent to complete the inventories, but if he accepts the position, he does so entirely beyond his capacity as trustee in the bankruptcy. Under these conditions, the problem of financing the operations is minimized as the bank will advance necessary funds without further security.

If, however, the inventories are not assigned to a bank, the trustee must make the arrangements for financing through the bank. If such financing must take place before the first meeting of the creditors and the appointment of inspectors, the trustee should consult with the court. The Bankruptcy Act provides that "with the permission of the court, an interim receiver or trustee, prior to the appointment of inspectors, may make necessary or advisable advances, incur obligations, borrow money and give security on the property of the debtor in such amounts and upon such terms and upon such property as may be authorized by the court, and such advances, obligations or money borrowed shall be repaid out of the property of the debtor in priority to the claims of the creditors".

Following the appointment of inspectors, the trustee should ask their approval of actions taken prior to their appointment, and must also receive their permission to carry on the business, so far as it may be necessary for the beneficial administration of the estate. Permission must also be received from the inspectors for any further borrowing of money or pledging of property of the bankrupt estate.

Where a bank holds security under section 88 of the Bank Act and proposes to carry on the processing of the inventories, unsecured creditors may suggest that the bank should pay rent on the premises and possibly on the equipment which it will be using. While such a payment may be appropriate, particularly if through the bank's use of the equipment and premises the trustee's realizations from these assets is diminished, perhaps the bank should be permitted the free use of the facilities since, by completing the inventories, it will reduce its own claim in the bankruptcy proceedings and may even produce a surplus for the estate.

When the bank has made a decision to realize on its inventory security, the Bank Act provides that wages of employees for a period not exceeding three months are a charge upon such property in priority to the bank's claim and must be paid if the bank takes possession. However, the Act further provides that on the payment of such arrears the bank receives a subrogation of the rights of the employees. This entitles it to a preferential position under the scheme of distribution set out in the Bankruptcy Act and permits it to recover its payment of wage arrears out of the realization from other assets.

Saving Perishable Inventory

Occasionally the trustee is faced with a decision of carrying on a business where perishable property is involved. The writer was once appointed trustee of a canning company during the peak of the canning season. At that time the company had in its receiving sheds a considerable quantity of pears and peaches which had been received from farmers under contract. Truckers were constantly arriving at the warehouse with further additional fruit which had been contracted for by the company, and deliveries were expected to continue for a period of three or four weeks. The bankrupt had a quantity of tins and labels on hand as well as barrels of maraschino cherries, cubed pineapple, sliced oranges, etc. Arrangements were made with the can manufacturer for the delivery of additional cans on a C.O.D. basis, and the bank agreed to provide funds for the payment of all necessary expenses. Thousands of tins of fruit cocktail were prepared until the pineapple, cherry and orange stock had been completely used up, and production was then shifted over to the canning of pears and peaches. The fruit growers were unable to make arrangements at that late date to deliver their produce to any other canning factory. As a result, they would have suffered very severe losses if production had been halted and would have made substantial claims against the bankrupt company. Since the staff was available, and orders were already on hand for the sale of a large percentage of the production, operations were continued until the contract of the deliveries had been completed.

During the course of operations additional orders are often received

which necessitate the purchase of additional materials. The natural tendency of the staff is to advise the trustee to accept the new orders as an extended operational period means an additional term of employment. The trustee must review the situation thoroughly before accepting or refusing an order, keeping in mind that the company probably arrived at a state of bankruptcy because of poor management, and the decisions of the staff in the present circumstances are questionable.

On one occasion the writer decided to carry on the operations of a tool and die manufacturing company and complete the orders on hand because at the time of the assignment a considerable amount of labour had been expended on the fabrication of special die orders. If the dies had not been completed, the work in process would have been completely lost. During this period an order was received on which the company had submitted a tender some weeks prior to the assignment. The employees were jubilant, as the order was for a sizable amount and, according to their calculations, should produce a substantial profit. However, the dies ordered were quite intricate, and any error during the course of production could completely nullify all labour previously expended on them. Because of this it was decided to return the order to the customer, and operations were terminated on the completion of work in process at the time of the assignment.

Saving a Good Business

Occasionally, the continuation of operations by the trustee will facilitate the sale of the business as a going concern. A long-established business which finds itself in financial diffi-

culties through unusual circumstances can very often be salvaged by the introduction of new capital and new management. Recently an incorporated company of this nature found it necessary to make an assignment due to an extremely heavy loss incurred as a result of a serious blunder on a large contract. The previous history of the firm had been good, but due to lack of working capital the profits had been moderate and the surpluses retained did not materially increase the working capital.

During the course of the trusteeship, a third party made an investigation and judged that the business could be put on a paying basis with the introduction of new capital and a modification of the manufacturing process. As a result, the previous shareholders transferred their shares over to the new principal, and a further meeting of creditors was called. A proposal was offered to the creditors which provided for a settlement of 50 cents on the dollar over a period of 18 months. This was substantially more than would have been paid if the trustee had completed liquidation and distribution. Following the creditors' acceptance, the bankruptcy proceedings were annulled and the proposal approved by the court. With a very substantial loss carry-forward available, the company retained a corresponding amount of future profits on a tax-free basis, and the funds thus retained assisted in settling the claims of the unsecured creditors under the proposal.

Duties of Trustee

All operations, of course, are carried on under the guidance of either the trustee or his representatives and care must be taken that the interests of the creditors are protected at all

times. Since the trustee is operating the business, he should make sure that, in addition to the usual insurance coverage for fire, theft, automotive fleet, etc., comprehensive liability insurance is secured to cover any claims arising during the course of his operations.

It is necessary that the trustee maintain a complete and accurate record of his receipts and disbursements during the period of operation. On winding up the affairs of the bankrupt, he must present a complete statement of receipts and disbursements, for approval by the inspectors, the Registrar, and the Superintendent of Bankruptcy.

The decision of the trustee to recommend continuation of operations should not be made without cautious deliberation. Success can only be achieved by cooperation from the

bank, management and employees as well as from suppliers of material which will be required in future operations. In the beginning, the trustee will no doubt be offered the whole-hearted support of the creditors and inspectors, but experience has proven that in a short time the guidance and enthusiasm of the inspectors gradually diminish, due to the pressure of other matters and the trustee ends up playing a "lone hand". If the result of operations does not measure up to the optimistic hopes of the creditors, the trustee is always criticized. Nevertheless, a satisfactory operation providing dividends in excess of those realizable on a quick disposal of assets is a recommendation of his abilities. As well as being a gratifying experience to him, it is usually productive of a fee in excess of that he would receive on a wind-up operation.

No Need to Count

This year marks the 50th anniversary as a limited company of S. & W. Berisford Ltd., an old-established English grocery firm which is the largest sugar-distributor in the country. The occasion has been marked by an interesting history of the business going back for 100 years. It records how the brothers Berisford — Samuel and William — ran a shop in Macclesfield for 18 years without taking stock. Working 14 to 18 hours a day, and up to midnight on Saturdays, they probably had little inclination for stocktaking when the shop door shut for the day. In any case, they lived with the business. Nowadays, it is vastly different; the Inland Revenue sees to that.

—*The Accountant*, Jan. 30, 1960.

Financing

Unemployment

Insurance

A. C. BURNS

THE BASIC feature that distinguishes unemployment insurance from public assistance or welfare is that under the contract of insurance an unemployed worker qualifies for benefit as a matter of right without reference to his need or to his other means, i.e. without any means test. The corollary is that he gets only what the contract provides. When he has exhausted these benefits, he can requalify only after working for a further period in contributory employment. A further corollary is that if the contingency covered by the contract never occurs to him, in other words, if he never becomes unemployed, he gets nothing back out of the fund; just as under fire insurance, if there is no fire, there is no indemnity.

Origin of Unemployment Insurance

The idea of unemployment insurance arose from the practice of Friendly Societies and Mutual Benefit Associations organized in the 18th and early 19th centuries among certain crafts and trades to provide sickness and death benefits to their members

out of a common fund built up by small weekly contributions. The similarity to other forms of insurance (life, accident, marine, fire, etc.) was obvious. By 1900 it had also become clear that a compulsory scheme, operated by the state, would have great advantages. In particular, it would make low-cost unemployment insurance protection possible for all trades, including those with heavy periodical unemployment, by including a sufficient number of good risks, namely, trades with a low ratio of unemployment. Since all trades are affected, directly or indirectly, by unemployment occurring in any particular trade, the burden of contributions to the common fund from which benefit payments are made should be spread evenly among all of them.

Some of the early European schemes permitted voluntary participation in funds managed by trade unions. However, they found that this not only gave very limited coverage, but in addition drew in too many poor risks without sufficient compensating revenue from workers who were steadily employed. To avoid the alternatives of bankruptcy or intolerably high contribution rates, it was found necessary to make unemployment insurance compulsory for all workers in the classes covered by the scheme.

Kinds of Schemes

Various ways of financing such a scheme suggested themselves, and a number have been tried. Australia, for example, collects the revenue as a part of income tax. Consequently, under its scheme there is no direct relation between an individual insured person's benefit and the amount that he has paid into the fund. In the

United States, where each state operates its own plan, all but three of the states (influenced possibly by the precedent of workmen's compensation) make the employer alone liable for contributions. The amount is collected through a payroll tax on a specified portion of each insured worker's earnings.

On the other hand, Britain, from the inception of its scheme of unemployment insurance in 1911, has adhered to a tri-partite contribution payable by insured workers, their employers and the government. This basis was adopted by Canada also, the main difference being that in Britain the contributions and benefits are at a flat rate, irrespective of the insured person's earnings, whereas in Canada the rates are graded in accordance with earnings.

The Australian scheme of unemployment benefit can only be classed as an insurance plan by stretching the meaning of insurance. The United States schemes come closer to insurance, and the British and Canadian schemes are closer still.

Insurance of any kind is founded on actuarial principles. Therefore, unemployment insurance must pay regard to actuarial principles or it ceases to be insurance. While different kinds of insurance schemes can be related to these principles in different ways and to varying degrees, fundamentally insurance of any kind is the application of the following formula:

- (a) *Definition of the contingency*, i.e. the nature of the risk insured against, and of the conditions under which indemnity will be paid.
- (b) *Limitation of the area of insurance* to situations that are con-

tingencies, not certainties; for example, it is common under sickness insurance to exclude pre-existing ailments.

- (c) *Estimating the rate of occurrence of the contingency* within the defined area, i.e. taking into account the ratio of bad risks to good, in the field of insurance concerned.
- (d) *Determination of the amount of the indemnity*, i.e. the rate and duration of payment.
- (e) *Calculation of the premium or contribution* needed to provide a fund sufficient to meet all probable claims in the foreseeable future.

Unemployment Insurance, although necessarily elaborate in application, is nevertheless based on the relatively simple proposition that an insured person who becomes involuntarily unemployed, and who is able and willing to work but unable to find employment, is entitled to an indemnity proportionate in some degree to the extent of the loss he has suffered. This indemnity is benefit.

In accordance with the principles enumerated above, the premiums or contributions have been calculated which are necessary under the Canadian scheme to support a fund sufficient for the payment of benefit claims. The following paragraphs explain in more detail how the contributions are collected and administered.

Stamps, Meters and Bulk Payments

From the point of view of the employer, the aspect of unemployment insurance that is likely to interest him most is the matter of the contributions

that go into the fund, i.e. the employer's share of the cost of the program. The fund has three main sources of income: the contribution made by the employer (half the cost of current contributions may be recovered by him from the current wages of his employees), the contribution made by the government (one-fifth of the combined employer and employee contribution) and the revenue from interest on its investments. As well, fines and penalties provide a small additional income.

At present, over 300,000 employers pay contributions by means of unemployment insurance stamps, and most of them make a purchase each week from one of the regular outlets of the Post Office Department. About 500 employers utilize postage meter machines which make a meter impression in the insurance book. This is a convenience in cases of relatively large staffs which are subject to considerable turnover and where payroll entries are not machine recorded. In the case of both stamp and meter users, the post office acts as the agent of the Unemployment Insurance Commission and is paid a commission on the value of the sales it makes.

The third means of making contributions is through a system whereby the employer remits the amount of the contributions by cheque monthly to the Commission and maintains a contribution ledger card for each employee showing the contributions recorded each pay period. This is known as the bulk payment method. This method is best suited to the larger employers who have mechanical bookkeeping systems and keep individual earnings records. The Commission requires a deposit from bulk payers equal to an average month's contributions, as these employers do

not have to remit their contributions until after the end of each month, whereas stamp and meter users are required to pay their contributions within three days of each pay day. Although only about 7,500 employers contribute by the bulk payment method, more employees are covered in this way than by stamps and meters combined. Under this system the ledger card is returned to the Commission annually, although if a separation occurs, a duplicate of the card or an extract thereof is fastened to an insurance book and given to the employee. Many of these employers also keep a supply of stamps. These are used for casual employees or in case of a separation where the ledger card has not been posted to date and it is more convenient to affix a stamp in respect of the most recent wage payment.

Each employer with insurable employees is required to register with the Commission. At the time of registration he is given, without charge, a licence to purchase unemployment insurance stamps. With the exception of authorized postmasters it is illegal for anyone other than a licensed employer, or his agent, to have possession of unused unemployment insurance stamps.

Each registered employer (except those on the bulk payment method) is given a supply of stamp or meter requisition forms. The employers purchase their stamps or meter credits at the post office. The postmaster retains a copy of each requisition he fills and sends it to the appropriate district audit office of the Commission. In this way, the Commission is kept aware of individual stamp purchases, and special attention is given to those employers who appear to be in arrears in their purchases of stamps or meter

credits. In the case of employers contributing by the bulk payment method, a similar follow-up is maintained if remittances fail to arrive by the due date.

Accounting Records

The accounting records required can best be illustrated by taking the case of the average employer who makes unemployment insurance contributions by means of stamps or meter credits. Unemployment insurance contributions are based on weekly or semi-monthly wages, and the denominations of stamps requir-

ed are ascertained by reference to the contribution table which shows the class required for various amounts of wages. The stamps or meter credits needed are entered on a requisition form which is presented at the post office together with the employer's licence and a remittance for the full face value of the purchase. Unused stamps or meter credits in an employer's possession are a current asset, and most employers recognize this by opening an inventory account which acts as a control of what is on hand. The usual entries are as follows:

Dr. Stamp (or meter) inventory account (asset)	\$200	
To Bank		\$200
to show cost of face value of stamps or meter credits purchased at post office in anticipation of requirements.		
Dr. Wages	\$1000	
To Bank		\$980
Stamp (or meter) inventory account (asset)		\$ 20
to show wage expense and recovery from employees of their share of unemployment insurance for the period.		
Dr. Unemployment insurance expense	\$ 20	
To Stamp (or meter) inventory account (asset)		\$ 20
to show employer share of unemployment insurance for the period.		

The above entries record the original cost of the stamps or meter credits, the recovery of the employees' share for the current pay period and the unemployment insurance expense incurred by the employer. The balance in the stamp (or meter) inventory account should agree with the physical count of stamps on hand or credits left unused in the meter machine after the insurance books have been stamped or metered in accordance with the requirements for the period.

If a stamp user wishes to defer pur-

chases until payroll requirements are known, no inventory account is needed, and purchases are shown as debits to the unemployment insurance expense account, and the employees' share is shown as a credit to that account. However, as the Act requires contributions to be affixed immediately upon separation, most employers prefer to keep a supply of stamps on hand for such emergencies, and accordingly they should maintain an inventory account.

In the case of employers contributing by the bulk payment method,

there will be an account for the employer's share of unemployment insurance expense which will be debited with the monthly remittance and credited with the total of the employees' deductions. There will also be an account showing the advance deposit required by those using the bulk system.

Requirements of Act

A considerable amount of responsibility is vested in employers under the Act. An employer is required:

1. To register as an employer of insurable employees.
2. To keep adequate records with respect to names and insurance numbers of employees, time worked, wages paid, value of any room or board supplied, deductions from wages for unemployment insurance, etc. Failure to do so results in contributions payable being calculated by an inspector on the basis of a percentage which is applied to the actual or estimated wages.
3. To pay contributions for continuing employees within three days of the pay day and to pay contributions for separating employees immediately upon separation.
4. To take possession of the insurance book of a newly hired insurable employee or, if he has no book, to obtain one for him from the Commission immediately.
5. To give a separating employee his stamped insurance book without delay and to obtain a receipt for it from the employee.
6. To permit inspection of his records by an auditor of the Commission.
7. To return insurance records to lo-

cal offices of the Commission upon request.

8. To furnish written returns of information when requested by the Commission; for example, stating the reason for an employee's separation when this is required for the determination of his right to unemployment insurance benefit.
9. To permit employees reasonable opportunities to examine their contribution records.

In addition to the requirements listed above (which deal with the contribution aspect of the Act), certain classes of employers are also required, from time to time, to supply data on the number of hirings and separations in their establishments.

Role of Public Accountant

A common business practice is to have records and insurance books kept by a public accountant. In such cases the public accountant is required to make separate stamp purchases on behalf of each employer client and to keep separate inventories of their stamps on hand. In order to comply with the Act and Regulations, each employer must be prepared to provide certain information and to maintain certain records. Therefore, a public accountant must take care not to pool all his clients' stamps or to stamp his clients' insurance books from a supply of stamps which he has purchased in his own name. It is important to note that the public accountant acts as an agent for the employer. If he commits an offence in handling the unemployment insurance affairs of a client employer, it is the client who is held responsible by the Commission.

A further point of interest to public accountants is in connection with

their capacity as public trustees and the manner in which the Commission may file bankruptcy claims with them. If an employer has made deductions from the wages of his employees and becomes bankrupt, leaving contributions unpaid, then trust funds are involved if the amount deducted from wages exceeds the contributions paid for the period. This is illustrated as follows:

Liability for period:

Employees' share (deducted from wages)	\$200	
Employer's share	200	\$400
	-----	-----
Paid in period (stamps used)		\$160
Balance owing		240

		\$400

In the event of bankruptcy the Commission's claim would be:

Trust funds (\$200 less \$160)	\$ 40
Preferred claim	200

	\$240

The Commission's staff of field auditors stand ready at all times to be of assistance to employers in the matter of maintaining the records required and to inform employers regarding the insurability of their employees and the correct contributions for them. Periodic visits to employers are made to verify that they are correctly applying the provisions of the Act and to correct any errors that may have occurred. The auditor is just as anxious to arrange for a refund of contributions overpaid as he is to see that the fund receives the contributions to which it is entitled.

Reporting Separations

The foregoing paragraphs deal with the way in which employers partici-

pate in the scheme from a contribution point of view. Another phase of unemployment insurance also needing full employer cooperation is the information which may be required to be supplied by employers when their employees separate. Many employers are under the mistaken impression that a worker loses all right to benefit if he has lost his job for industrial misconduct, inefficiency or any reason whatever. In such cases these employers sometimes hesitate to state the real reason for separation and report "shortage of work" in order not to cause the employee to lose his entire benefit. The truth is that no such penalty exists. If a worker has lost his job through his own fault the most that can happen to him is that he may be required to wait out a temporary disqualification period, (from one week to a maximum of six weeks, depending on whether or not there are extenuating circumstances), before starting to draw his benefit. Therefore, there is no reason for employers not to report the true cause of separation.

There is always a danger that any unemployment insurance scheme will be abused by some persons who prefer to stay on benefit rather than accept suitable employment. It is the duty of the employer, therefore, first to make contributions only in respect of employees who are properly insurable and only in respect of periods of actual employment, and, secondly, to report correctly the reason for an employee's separation or refusal to accept an offer of employment.

Unemployment insurance has become an integral part of the Canadian way of life and although its primary purpose is to provide workers with a temporary income during short

periods of involuntary idleness, the scheme has benefits too for those who contribute as employers. Millions of dollars are put into circulation annually through payments to claimants and these funds do much to bolster the economy by providing consumer purchasing power and enabling customers to pay their bills. Furthermore, relief costs which are borne by the taxpayer are correspondingly reduced.

For the scheme to provide prompt and efficient service to claimants, the cooperation of employers is essential. For this reason, and also because cooperation means less trouble and expense for employers, the Commission is most anxious that employers, and those who have close contact with them, do all in their power to see that the scheme functions smoothly and efficiently.

Pension Funds in a Capitalistic Society

Private pension funds are growing faster than any other form of investment and are a major factor changing the nature of the capitalist system in the United States, the Twentieth Century Fund reports in its new study, "Pension Funds and Economic Power".

The report concerns itself particularly with the impact on the capital market of noninsured pension funds called pension trusts. This type of fund, with more than half of all the assets in private pension funds, is administered by a bank, trust company or group of individuals.

These funds now total nearly \$40 billion and are increasing by more than \$4 billion a year. Along with other accumulations of trust moneys, such as mutual investment funds and insurance, this wealth is being put to work as capital by trust officers, with decisions as to how and where it is invested made, in most instances, by bankers rather than by the actual investors.

From the traditional viewpoint of capitalism vs. socialism, this is a "neither fish nor fowl" situation. The report makes the point that pension funds are neither public nor private property, except in the sense that they are not controlled by the state; this vast working wealth is "owned by no one in the meaningful sense of the term". This "rapid institutionalization of the ownership of property", says the author, Rev. Paul P. Harbrecht, poses a challenge "to find a rational framework to accommodate it".

A swing is noted from investing [pension funds] in bonds and Government securities to stocks of corporations. Annual stock purchases on the part of pension funds are larger than those of any other group of major buyers. The possible influence of the pension trusts on corporate control and on the nation's economy, notes the author, is of great significance.

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Test Costing

G. ERIC BARR, C.A.

AMONG THE VARIOUS methods of obtaining factory costs, test costing seldom receives the consideration that it deserves. Under certain circumstances it cannot be surpassed for providing finished product unit costs, as well as a wealth of information concerning the various parts or pieces, sub-assemblies, and fabricating operations that comprise the finished article. The unique feature of this method is the assumption that by averaging the actual unit costs obtained from a small number of representative batches or runs of each operation, a reasonably accurate total unit cost can be obtained. It is particularly suitable where the better-known job and process costing methods are precluded for some of the following reasons:

1. An inexpensive and approximate method is all that is required.
2. The finished products are varying assemblies of many fabricated parts or sub-assemblies.
3. The labour operations on each part are performed in several departments.
4. A portion of a batch or lot is processed in a succeeding department before the lot is completed.
5. Outside work is performed on partially completed parts.

6. Batches or lots are small or irregularly produced.

Within the framework of a job or process cost system, the test method can be used for costing certain small operations. It can be operated without the assistance of time and motion studies, and the cost information is so detailed for each operation that it can be of great assistance in estimating the probable cost of new lines or the effect of proposed changes in the various processes.

The principles of test costing are known by different names. In his book "Basic Cost Accounting", S. W. Specthrie refers to this method as "operational cost accounting". Other authors have called it an estimating cost system. This article is not intended to repeat their treatment of the subject, but rather to consider some of the problems which arise in the operation of such a system.

Reporting Cost Information

The accuracy of test costs is generally measured by comparison of actual labour and material costs for a period with reported production extended at test cost values for the same period. It is very important that all production be accurately reported.

Even with the best intentions, operating personnel will make mistakes, and adequate cross-checks are necessary. In addition to a constant review of reports for reasonableness, the cost accountant should employ such devices as comparison of actual output with a standard, physical counts with book records, production piece counts with those made by receiving departments or stock keepers, and finished production with shipments, adjusted for inventory variations.

A prime consideration with this as well as other systems is the designing of forms for reporting cost information. Operating personnel are not accountants. They are expected to produce, not to do paper work; hence only absolutely essential information, prepared in the simplest way possible, should be requested of them. These should be the objectives in designing forms for reporting production continuously, and the results of test runs requested on occasion. Essential information is usually contained in answers to the familiar six question of, *who, what, when, where, why, and how?*

Who performed the work and *who* recorded the count or measurement?

What was produced, and *what* was used in time and material?

When was the operation performed, and were the conditions normal?

Where was the work done, in what department or machine centre, and with what equipment?

Why was the work done, or *what* was the production order number or authority for the work?

How well was the work done, or *how* much waste or scrap was produced along with the first grade product?

Work Sheets as Forms

To reduce transcribing time and chance of error, the forms should be designed as work sheets as well as reports. All summarizing and conversions of pallet counts to piece counts or weights, should be done in the accountant's office. Every convenience for recording should be provided. Locate the forms where the count is most easily made; use paper clamps to hold the forms; provide good writing surfaces; tie pencils with a length of string to the paper clamps; pre-print part numbers or names or other recurring descriptive information; provide adequate space for recording all required data; arrange that the office staff supply and collect the forms at the end of each day or shift. The amount of skill and ingenuity applied at this point in the system will be amply repaid by the accuracy and co-operation attained.

The work sheet portion of the test run report form should be arranged for quick and easy processing in the office. This requires that space be provided for material unit costs next to the reported quantity of material used, as well as space for the total material cost and for the material cost per unit of good pieces produced in the operation. In the same way, space should be arranged for labour rates for each employee, total labour cost, and the labour cost per unit of good production in the run. Finally, the form should provide for the calculation of any weight loss, the overhead absorbed, and a unit cost for the complete operation.

If it is difficult to secure a test run under normal conditions, or it appears that the unit cost of material or labour for similar operations are not comparatively uniform, a series of test runs

should be made. Under these conditions, it will be advisable to maintain a card file in the office for averaging the results of each series of tests. The minimum information to be recorded is the unit cost results obtained from individual runs, so that they can be totalled and an average computed.

Accounting Records

Among the various records in the accounting office, the most important is the register, in which are summarized the unit costs of each type of finished product. This register frequently takes the form of a loose leaf binder having two main divisions. The first part will contain the estimated unit costs of finished products, and the second, the estimated unit costs of each sub-assembly. In the first part, one columnar page will be maintained for each product. On the left side will be listed the various materials, sub-assemblies, and fabricating operations, in the order in which they are performed, in the production of the particular finished product. In the next column to the right are indicated the quantities of each component required to make one finished unit. In the next three columns will be shown the cost of the material, labour and overhead, elements of these components. The cost of each component will be obtained by multiplying the unit costs obtained from the test run work sheets, by the quantity needed to make one unit of the finished article. Heading these columns will be the date on which the cost estimates were obtained from test runs or became effective. Further columns to the right will provide for revisions to the estimated cost, due to changes in the process, increases in labour or material costs, or corrections due to

improved estimates in later test runs.

This method produces an historical record of costs with a minimum of re-writing. At each point in the productive process where an in-process inventory may occur, a sub-total of the accumulated test costs should be shown. These sub-totals will provide the basis for pricing in-process inventories. The total unit cost on each page will be used to cost finished production and price finished goods inventories. The labour, material and overhead unit cost totals, when multiplied by finished production, provide the relief to the respective in-process accounts.

The estimated unit costs of the sub-assemblies, indicated as components of finished products in the first part of the register, will be found in the second part. It will consist of the same columnar sheets, one for each sub-assembly, and indicating in separate columns the material labour and overhead costs, obtained from test runs, that comprise the total unit cost of each assembly.

An office form or record should also be provided to recapitulate the daily usage and production as reported by the factory. It should be arranged so as to produce period-end book records of in-process inventories, as well as the relief from material inventories. These book inventories should be reconciled with physical inventories to insure that no production goes unreported. The parts usage in succeeding departmental operations should also be reconciled with each department's production adjusted for inventory variations. The production recapitulations provide some of the cross-checks necessary in the effective operation of the system. These areas should be carefully checked if production, at estimated costs, does not ab-

sorb actual material, labour and overhead costs incurred, before doubting the accuracy of the estimated test costs.

Obtaining Test Costs

With the introduction of a test cost system, it will be necessary to secure a test cost of each item, purchased part, and sub-assembly entering into all finished products, as quickly as possible. Many factors will influence the methods to be used in obtaining these initial costs, such as the degree of urgency for the information, the accountant's ability to give clear instructions, and the skill of the operating personnel in carrying out the instructions. In theory, the accountant should supervise the first tests for each operation. In practice, the test runs will be made by methods somewhere between that ideal and the situation where the operating personnel make and report all the tests.

Once test costs have been secured for all operations, a program for making repeat test runs should be set up by reference to reliability, date last made, and production schedules, so that all operations are reviewed in, say, a two-year period. This program is in addition to one for test runs required because of changes in methods and materials used. Changes in labour rates and material prices can be reflected in the estimated unit operation costs, without making any new test runs. Each request for a test run should be numbered in sequence, and this number used as a reference when revising the cost register. If there are many types of finished products and the same material or parts are used in various finished products, it would be advisable to have a record of where each material or part can be

used, so that when a part cost change is made, all finished products register records will be adjusted.

There is no simple answer to the question of what constitutes an adequate test run. As the test is attempting to obtain unit costs under normal conditions, the run should be in sufficient quantity to average out variations in the quality of materials used, temperature changes, equipment, skills and productivity of labour, and other variables.

It will be noted that materials enter into production as a basic material for a fabricated part, as a complete part ready for assembly into the finished article, as a service operation performed by outsiders, or as reworked material salvaged from scrap.

Some form of perpetual inventory record will be necessary to obtain the actual laid down cost for each fiscal period of the various materials and parts used in each operation. As material costs frequently vary with each purchase this would mean that the estimated costs should be adjusted in each month or period. This is a heavy task with any but the simplest of assembly operations. Consideration should therefore be given to adopting standard material prices, thereby reducing the number of changes in the cost register. Under such a plan, price variances would be reflected in a separate account at the time of purchase rather than when issued from stock.

It will be observed that under this system, labour and material costs are accumulated and combined at the various stages of fabrication or an assembly. Therefore, a cost of sales is available for pricing parts shipped to outside fabricators. When returned,

the parts can be costed as purchased parts at prices which include all costs incurred.

The same accumulated costs provide a quick method of pricing partially fabricated parts or sub-assemblies which are scrapped further along the assembly operation. The cost of the rejected or spoiled parts having been easily determined, the affected in-process inventories can be relieved, and, if desired, a charge made to the department responsible. If a salvage or reworking operation is performed, it too can be test-costed, and a readily determined cost charged to the department which caused the rework. The good parts so recovered can then be added to the in-process inventories at their normal estimated cost. This treatment is mentioned to point out the advantages of the system, not to discuss theoretical treatment of loss through scrap or rework operations.

Reporting Labour Costs

A different series of problems arises in connection with reporting the labour cost on the test run tickets. This item will require more supervision on the part of both the foreman and the cost accountant. Unless productivity is geared to machine speeds, care should be exercised in the timing of the tests. Human productivity not only varies with individuals, but with the time of the day, emotions of individuals, and the type of supervision. The tests should be of sufficient duration to average out the effects of these variations. Where operators are interchangeable or crews are made of varying numbers of apprentices and old skilled hands, standardization of procedures must be enforced to obtain a fair average. If production is on a belt or assembly line basis, the num-

ber of operators can vary. Under these circumstances, test runs should be made only when there is a normal crew operating under reasonably efficient conditions. The size of the crew, however, becomes an essential statistic in the daily report of the line's production, and must be taken into consideration when analyzing variances between actual and estimated costs.

It has been assumed so far that only productive lapsed time is reported on the test run tickets, and that the hours shown are extended at actual rates paid. This implies that a highly detailed and accurate labour distribution is prepared which must account for and charge to overhead any downtime, stand-by time, reliefs, clean up, meetings or holidays. If such a detailed labour distribution is not practical for one reason or another, it is possible, with considerable skill, judgment and experience to develop a composite or inclusive rate for each operation. Where fringe benefits can be directly related to labour rates, the composite rate can be adjusted to provide for them in the operational cost. In these cases little distribution is required of the actual pays and the number of overhead items are reduced. Indeed some kind of an inclusive rate is necessary where there are productive working foremen, and operating personnel who do some of their own maintenance and cleanup.

It has been further assumed, so far, that only one account is maintained for material in-process, one for labour in-process and one for overhead absorbed. If the actual labour cost charged to the in-process account varies materially from the labour cost at test cost rates absorbed in finished production, and the ending in-process inventory, consideration should be

given to operating in-process accounts for each department. The variation between actual and absorbed labour is then localized more specifically.

Even after the system has been in operation for some time, peculiar labour operating results can be expected. These should be immediately investigated, and with repeated test runs and patience the records can be corrected. As the memory of events that disturbed normal operations is usually short, the rapid calculation of labour costs absorbed and comparison with actual is important.

Allocating Overhead

The proper method of allocating overhead is always a good subject for heated discussion among accountants. The simplest method is to apply overhead as a flat percentage of the direct labour in production as determined by the test costs. This method is seldom accurate because the degree of mechanization, the amount of supervision, maintenance, power, heat, and occupancy costs are seldom consistent with the value of direct labour throughout the plant. With the detail of labour cost by operation available, a different rate can be applied for each department in which the operations were performed. Depending upon the time and cost involved in calculation, a separate overhead rate can be applied to each labour operation. Special conditions can be provided for. Where an operation involves a high degree of mechanization, and the required information is reported with production, it may be more appropriate to apply overhead to operations at a machine-hour rate. Rates can be weighted to operations using large amounts of fuel. This

system only partially solves the problems of fixed and variable overhead costs. It is suggested that overhead rates be consistently set to absorb overhead under normal conditions and production. If production is intermittent, because of changing market conditions, consideration should be given to charging the results under absorbed overhead to profit and loss, rather than changing the rates.

Discussion of overhead is usually confined to that applicable to the factory. However, if the costs are to be used for price setting, or management considers "cost" to include selling and administrative expenses, provision should be made for them in any statements presented. The apportionment of these expenses over the sales of finished goods is outside the scope of this subject. The same test run principles can be applied for special promotional expenses in the packaging and distribution of certain products. Warehousing and shipping expenses, if significant, and not included in the factory costs, can be included in product cost on a weight basis, although such items are usually treated as period costs in financial statements.

As a test cost system results in an over or under-absorbed variance in the in-process accounts for material, labour and overhead, it might be assumed that it is in effect a standard cost system. This is not the case. The variances only reveal that the test run estimates did not provide for the exact cost of all the conditions that occurred in a period. To the degree that the variances reflect seasonal or other trends provided for in the costs, the costs should remain unchanged. The other part of any variance represents inaccurate estimates, not a standard that should have been met.

Calculating Cost of Sales

In order to calculate a period cost of sales from the unit test cost estimates of finished goods, a unit sales analysis is necessary. This is usually most economically done in conjunction with the dollar sales analysis. Whether manual spread sheet or punched card methods are used, the important point is that costs are applied to the same quantities that were sold. Under certain conditions, an extension of the quantities shipped, at selling prices, will effect an overall proof of billings. A summary of the extensions of quantities sold at unit test cost values provides the amount to be set up as the period cost of sales and relief of finished goods inventory account. The extension of production summaries by product, at estimated labour, material, and overhead component costs, gives the amounts for relief of the respective in-process accounts. The total of the three is the charge to finished goods inventory. The balances in the in-process accounts represent the inventory in-process at test cost prices and the amount over or under-absorbed by using these prices. If desired, a physical inventory of in-process goods could be extended at the various component values and set up in a separate account. The amount of the variance would then be clearly shown as a residual balance in the old in-process accounts.

As most of the entries affecting costs will be repeated month after month, a standard of recurring type of journal is recommended. Very few accounts will be added to a conventional general ledger by the use of test costing methods. The use of a factory ledger control account does not seem

necessary, unless a series of departmental in-process accounts are used.

Conclusion

In spite of its essential simplicity and comparative economy of operation, the amount of skill and experience required in supervising an effective test cost system should not be underestimated. The accountant in charge of the system must be ever on the alert for variations in factory methods and management policy changes. He should constantly be comparing results as shown by his statements with what is reasonable in the light of actual conditions. He should also expect to have his reports challenged and be prepared to defend them before operating and management personnel. Reports should be timely and as accurate as possible.

It should not be deduced from this that test costing is suitable in all circumstances, but rather that it may be considered as an alternative in certain cases to the more elaborate systems of costing. Thus, it provides in many cases the advantages of pre-determined costs without the expense which would be involved in deriving the data necessary for the operation of a full-fledged standard cost system. Test costs can also be invaluable to small businesses which do not have the personnel necessary to operate a system integrated with the general books of account. Although the foregoing discussion has assumed a system in which the cost entries are reflected in the records, test costing is also appropriate when a rapid calculation is required for setting prices or determining the relative profitability of various product lines.

Dominion Stores Vice-President Addresses Hamilton Chartered Accountants on Purchase-Lease Financing

N. H. Shaw, Q.C., vice-president and secretary of Dominion Stores Limited, was guest speaker at a meeting of the Hamilton and District Chartered Accountants Association. In view of the wide interest in purchase-lease transactions and because the company with which Mr. Shaw is associated is a pioneer in the field, we are reprinting the substance of his address which deals with purchase-lease transactions from the operator's point of view.

Because our company is one of the pioneers in Canada in purchase-lease transactions, and has, during the last 11 years or so, completed some 110 transactions involving some dozen investing institutions, it seems probable that our experience has covered some ground common to all companies who have participated, or may intend to participate, in purchase-lease transactions.

Definition and Purpose

A purchase-lease transaction is one where an investor buys a given piece of property and, at the same time as the purchase, grants a lease of the same property to the vendor, on terms designed to amortize the investment over the term of the lease at an agreed-upon interest rate. There are, of course, many refinements and elaborations of the scheme, but the fundamental concept remains unchanged.

The purpose of such a transaction from the operator's point of view is primarily to release operating capital which would otherwise be tied up over a long term of years in real estate. It may be useful at this stage to give a brief outline of Dominion Stores Limited's procedure under transactions of this type.

In the first place, the company buys a given piece of property for development. It then produces plans for the construction of a store on it and proceeds to build. At this stage an investor is approached and is offered the property upon completion of its development at the cost to the company of the land and development, such cost at this stage being expressed as an estimated maximum.

Upon completion, the property is sold to the investor at its actual cost, and a lease is executed from a previously agreed-upon term at a rental calculated to amortize the investment over the term at an agreed upon interest rate. This procedure is fairly standard with the company although on several occasions it has bought existing buildings and resold them to an investor after renovating them for its own purposes. A further variation is to employ the investor to buy and develop the land according to the operator's plans and lease it to the operator upon completion. This procedure has the undoubted advantage of relieving the operator from any investment, even temporary, in the project, but is subject to the disadvantage that it requires a type of investor who will not normally grant the same favourable lease terms as those given by purely lending institutions.

Advantages to the Operator

It is fundamental in our company's

operation that the maximum possible amount of its capital shall be employed in the operation of the company's business, i.e. that it shall be devoted to the greatest extent possible to business inventory with a rapid turnover averaging, in the case of staple commodities, to about 30 times per year. Thus it is feasible to do a business volume of something more than \$350 million per year by employing a working capital equal to about 5% of the volume of sales. If any substantial amount of this working capital becomes tied up in non-liquid assets, the ability to increase volume of business (and profits) becomes limited unless further capital is obtained by other means, with the consequent possibility of overloading the company's capital structure or impairing its borrowing powers which may be necessary for other purposes.

One of the advantages of purchase-lease financing is that it does not involve the restrictions on further financing and the payment of dividends normally incidental to financing through the issuance of debentures.

As contrasted with conventional mortgage financing, under purchase-lease transactions the whole of the operator's investment is recovered, whereas under the usual terms of mortgage financing the operator is left to carry a substantial part of the investment.

In further contrast, the funds required for purchase-lease transactions become available as needed. On the average our company's investment in a given property from the time it acquires the land until the developed property is sold to an investor is not required for more than 18 months. The maximum investment, which is

reached upon the completion of the development, is not required for more than four months before its recovery. On the other hand, borrowing by issuance of debentures or equity financing for purposes of construction may well saddle the company with large sums of money for which it has no immediate outlet, the carrying charges on which are sometimes difficult to equalize by reinvestment. Under purchase-lease transactions the company's borrowings for physical development are closely geared to its actual needs. In addition it has proved possible, by reasonably accurate forecasts of the funds which will be required over a given period, to ensure that the necessary money will be forthcoming as needed.

The character of the investing institutions with which our company's purchase-lease transactions are normally conducted usually makes it possible to conclude leases on terms more favourable than could be secured from a private investor or developer.

A private investor who undertakes to build and finance a given property, in most cases, seeks a profit to himself as well as an investment. An investing institution in most cases is content with the return of its investment over the term of the lease plus the agreed-upon interest, and in addition enjoys certain tax benefits not available to a private investor. In consequence, the investing institution is usually able and willing to offer more favourable rental terms than the private developer and is prepared to grant long-term options to renew on terms very much more favourable than those contained in the primary term, a feature difficult to obtain from the private developer. Purchase-lease transactions permit a kind of flexibility in develop-

ment which might otherwise be difficult to achieve.

A large concern constructing a variety of types and sizes of buildings in all parts of the country will probably wish to develop in some areas not favourably regarded by the individual investor. The institutional investor under a purchase-lease transaction is inclined to regard the operator's covenant as its prime security and is less concerned as to the tangible security involved in the purchase. It is therefore usually willing to finance buildings in areas where other investors might hesitate to do so.

The leaseback procedure has important advantages to the operator from an income tax point of view. He is able to charge against income the entire amount of rental paid under the lease, which includes, of course, rental on the land included in the transaction. If he continues to own the property, he will be able to claim depreciation *on the building only* on a diminishing balance basis. This tax advantage is subject, however, to some qualifications depending on certain terms of the lease.

The foregoing are the principal advantages to be obtained by the operator from a purchase-lease deal.

Some Disadvantages

It is a sad fact, however, that purchase-lease transactions, like many others, are not wholly perfect from the operator's point of view. In the first place it is not easy for every operator to obtain them on reasonably acceptable terms. Reference has already been made to the fact that the usual investing institution is inclined to rely for its security to a greater extent on the lessee's covenant than on the physical assets covered by the

lease. In consequence, an operator whose balance sheet and credit rating are less than first class in the opinion of the investor may find his proposal unacceptable. Or it may be acceptable on terms as to interest and terms of lease which render the transaction an intolerable burden on the operation despite the fact that the operator's physical security may be excellent. It is, of course, essential not only that the interest rate be bearable, but that the term of the lease be sufficiently long to ensure a constant rental factor which will allow operation at a profit. An interest factor which at first glance may be wholly reasonable becomes wholly unreasonable if the operator is required to amortize the investment over too short a time.

As in the case of any lease, the operator is denied complete flexibility in the management of his property. If, some years after completion of his development, he finds that he has miscalculated his needs and must enlarge or remodel his building, he may do so only with the permission of his landlord. Most landlords will permit a tenant to alter his premises provided that the landlord's security is not diminished, but the tenant must bear the cost of any such work himself. Occasionally, but by no means always, the landlord can be persuaded to revise his lease so as to absorb all or a part of the cost of remodelling or extension on the same general terms as the original transaction. In any event, the choice is that of the landlord.

Most, if not all, purchase leases are drawn on a strictly net basis, i.e. the tenant assumes all the responsibilities normally associated with ownership, including taxes, insurance, maintenance and repairs of all kinds. In consequence, the operator is exposed dur-

ing the entire period of the lease to the impact of the constant increase in these costs which may at the end of his lease amount annually to many times their annual costs at its beginning.

This disadvantage is not, of course, peculiar to the purchase-lease transaction, and is not confined to net lease deals in general. Nowadays, even leases which require the landlord to bear the costs of maintenance, taxes and insurance are nearly always replete with various types of escalation clause protecting the landlord against, and saddling the tenant with, these increases.

It cannot therefore properly be called a disadvantage of the purchase-lease scheme, but may more accurately be identified as a curse inherent in these times in any association with real property, however modest that real property may be.

A purchase-lease transaction *ex hypothesi* involves a long-term leasehold obligation with regard to a property which may in 10 or 15 years have become for various reasons unsuitable for the operator's business. Under these circumstances the lease may become a dangerous liability unless some means are provided for its severance at a cost which is not prohibitive.

Two principal means have been used to minimize this danger. One is the insertion in the lease of an option in favour of the tenant to repurchase the property at the end of a given period at its then unamortized value on the books of the landlord. Unfortunately the existence of such an option involves certain income tax consequences set out in section 18 of the Income Tax Act which, at any rate, under the circumstances under

which our leases are written, result in the tenant being regarded as the owner of the premises for income tax purposes. The result is that his tax relief is limited to a capital cost allowance based on the total rents payable under the lease plus the option price, less the fair market price of the non-depreciable portion of the property at the time of execution of the lease. He is not permitted to claim his rental under the lease as a charge against income.

It is true that since 1958 subsection (4) has been added to section 18 which makes it possible, under certain circumstances, to avoid the consequences of section 18. However, it does not seem likely that this subsection will, as a practical matter, help the situation on long-term leases.

Any such clause, in any event, should be written with an eye on the rule against perpetuities which provides that such an option, to be effective, must be exercisable only within a life or lives in being at the time of the execution of the lease and 21 years thereafter.

A refinement of such an escape clause is a clause granting the tenant a right of cancellation after the lease has run for a given length of time, subject to his being obliged at the option of the landlord to repurchase the property at its unamortized value on the landlord's books. This clause is, of course, intended to escape the consequences of section 18 and, at the same time, to afford the tenant an opportunity to buy himself out of an unprofitable lease with the minimum of cost. This particular scheme has not as yet been the subject of judicial decision but has hitherto been accepted by the Department.

It should be said that in the case of both procedures, provision is usually made for payment by the tenant, in addition to the unamortized value of the property, of a premium intended to compensate the landlord for his cost of reinvesting his money.

By selling his property under a purchase-lease transaction, the operator may deprive himself of the opportunity of making a substantial capital gain should the value of the property appreciate over the years. Having in mind the tremendous appreciation in the value of industrial and commercial property which we have seen over the last few years, the possible loss of such a profit would appear to be a very real disadvantage.

A reasonably effective way of neutralizing this disadvantage has been to secure a number of successive options to renew the lease, sometimes for as much as 50 years. Such options, at an annual rental equal to a small

percentage of the sum at which the property was originally sold to the investor, go a long way toward restoring to the operator the advantage he has lost by the sale of his property; and, as we have seen, investing institutions have normally been willing to grant such options.

Conclusion

Purchase-lease transactions have become increasingly popular in the last few years and may become more so as further sources of funds develop. Certainly the whole question is an interesting one from the professional and economic point of view and has developed far beyond the somewhat specialized study that it was in this country until comparatively recently. However, the opinions expressed here may not be applicable to all types of business and are, of course, subject to revision if there are drastic changes in the economic climate.

Good and Bad Handwriting

According to a survey by a fountain pen company reported in the *Evening Standard*, accountants and architects have the best handwriting. Civil servants, commercial artists, teachers, clerks, authors, clergymen and librarians also have a good standard.

Doctors and businessmen have the worst handwriting. Among others with a reputation for poor writing are lawyers, scientists, journalists, shopkeepers and musicians.

—*Taxes*, December 1959

Accounting Research

The problems involved when one auditor relies on the work of another are currently receiving the attention of a sub-committee of the Committee on Accounting and Auditing Research. The following article on this important subject by W. D. Sprague was published in the February issue of the Journal of Accountancy and we are grateful to the author and The Journal for permission to reprint it.

RELIANCE UPON OTHER AUDITORS

By W. D. Sprague

Auditors frequently find it necessary to express an opinion on financial statements which include amounts applicable to subsidiaries or branches examined by other auditors. This situation may arise when subsidiaries or branches are located at widely separated geographical points and it is not feasible for the principal auditor to visit them, or local management prefers a resident firm of auditors, or legal considerations require coverage by a resident auditor in some foreign countries. In other cases, a subsidiary or branch may have been acquired close to the balance sheet date, and timing considerations may make it desirable to utilize the report of the previous auditors in expressing an opinion on the consolidated financial statements. The principal questions inherent in these situations are as follows:

1. To what extent is the principal

auditor justified in utilizing the reports of other auditors?

2. How does the principal auditor deal with the reference to other auditors in the scope and opinion paragraphs of his report?
3. What inquiry does the principal auditor make with respect to the professional standing and independence of the other auditor?
4. What additional problems arise when foreign auditors are involved?
5. To what extent is it desirable for the principal auditor to review either the program or the work of the other auditor?
6. What are the problems of the other auditor?

These questions have been discussed at length in professional groups, and individual firms have evolved their own policies with respect to them, but there is very little in our literature which bears upon the subject. While there appears to be reasonable agreement among those with whom the problems have been discussed, the views expressed herein are merely those of the author.

Extent of Coverage by Others

Ordinarily, the subsidiaries or branches examined by other auditors may not be sufficiently material to raise a serious question of the propriety of an opinion by the principal auditor. In extraordinary cases, how-

ever, the portion of the whole examined by other auditors may be so large that there would be little substance to an opinion by the auditor for the parent company. It would appear that such extraordinary cases must be resolved on their merits and that no rule of general application is possible.

If there is a high degree of integration in the operations of the group (involving the flow of products from parent to subsidiary, for example), and a high degree of accounting control by the parent, the fact that the subsidiaries, examined by other auditors, constitute a significant percentage of total assets and income may not be cause for concern. On the other hand, if the parent company is solely a holding company, with no function other than the ownership of the capital stock of operating subsidiaries, some auditors may conclude that they are not justified in giving a professional opinion on the consolidated financial statements when other auditors have examined the accounts of the operating subsidiaries. Coverage of more than 50 per cent of the consolidated assets or income by other auditors would indicate that the principal accountant is in an area where he should at least consider the question of substance to his opinion on the consolidated financial statements. In such extreme cases, the principal auditor sometimes presents his opinion on the accounts examined by him, refers to the examination and report of the other auditor with respect to the balance of the accounts, and limits his report on the combined accounts to a simple statement to the effect that the two sets of accounts have been properly combined.

A further factor in the evaluation of the principal auditor's position is the extent to which he may have participated in the programming or review of the other auditor's examination. Where there is a high degree of collaboration between the principal auditor and the other auditor, the problem of substance as to the opinion of the former would appear to be less than in cases where there is limited collaboration between the respective auditors.

Auditor's opinions sometimes disclose the percentages of assets or income included in the consolidated financial statements which have been examined by other auditors. This is a factual disclosure, and there would appear to be no objection to it. While such disclosures do not alter the responsibility of the principal auditor for the examinations carried out by him, they do give the reader an indication of the extent to which the principal auditor has utilized the opinions of others in arriving at his own opinion on the consolidated financial statements.

Report Problems

The problems of reference to others in the auditor's report are directly related to the responsibility which the principal accountant wishes to accept. Rule Six of the American Institute's Rules of Professional Conduct reads as follows:

A member shall not sign a report purporting to express his opinion as the result of examination of financial statements unless they have been examined by him, a member or an employee of his firm, a member of the Institute, a member of a similar association in a foreign country, or a certified public ac-

countant of a state or territory of the United States or the District of Columbia.

If the principal auditor is willing to accept full responsibility for the work of the other auditors, this rule does not require any mention of the fact in his report, either in the scope or the opinion paragraph. This would be the normal situation when:

- (a) the principal auditor has engaged another auditor to act as his agent on a specific engagement, or
- (b) the other auditor is an affiliated or correspondent firm whose work is accepted by the principal auditor, or
- (c) the principal auditor has made sufficient review of the other auditor's work to permit its acceptance, or
- (d) the amounts involved are not material.

If the principal auditor does not accept responsibility for the work performed by other auditors, reference is usually made to the examinations by others in the scope paragraph, and the opinion paragraph is usually introduced by wording such as "based upon our examination and upon the reports of other auditors with respect to"

It should be noted that these practices conform to Rule 2-05 of Regulation S-X, governing reports filed with the Securities and Exchange Commission, which states as follows:

If, with respect to the certification of the financial statements of any person, the principal accountant relies on an examination made by another independent public accountant of certain of the accounts of such persons or its subsidiaries,

the certificates of such other accountant shall be filed . . . ; however, the certificate of such other accountant need not be filed (a) if no reference is made directly or indirectly to such other accountant's examination in the principal accountant's certificate, or (b) if, having referred to such other accountant's examination, the principal accountant states in his certificate that he assumes responsibility for such other accountant's examination in the same manner as if it had been made by him.

Reference to work performed by other auditors in the scope paragraph, without any reference to the report of the other auditors in the opinion paragraph, would not seem to be a limitation on the responsibility of the principal auditor for his opinion on the financial statements. Such disclosure in the scope paragraph only is merely a factual explanation of the manner in which the examination was performed. If the principal auditor intends to limit his responsibility to the work directly performed by him, it would appear that he should refer to the examination by the other auditor in the scope paragraph and state that his opinion is based, in part, upon the report of the other auditor.

The most recent study of 600 annual reports to stockholders, by the Technical Services Department of the American Institute of Certified Public Accountants, discloses that sixty-four auditors' reports included some reference to examinations by other auditors. In the majority of these cases there was a reference, in the scope paragraph, to the examination by the other auditors and a statement in the opinion paragraph such as, "In our opinion, based upon our examination and upon the reports

of other auditors with respect to . . . etc." In a few cases, the scope paragraph included a statement that the report of the other auditors had been accepted and no reference was made to the report of the other auditors in the opinion paragraph. This treatment would appear to indicate that the principal auditor did not intend to limit his responsibility with respect to the opinion on the consolidated financial statements.

The study disclosed a few examples which may leave some doubt as to whether the principal auditor intended to limit his responsibility, such as: "In our opinion, accepting the report of other accountants as to . . . , the accompanying balance sheet presents fairly, etc."

In another case, the scope paragraph stated that the report of the other auditor had been accepted, but the opinion paragraph read: "In our opinion, based upon our examination and upon the reports of . . . accountants referred to above, etc."

The scope paragraph of the standard short form of auditor's report characterizes the examination as being "in accordance with generally accepted auditing standards" and as including "such tests of the accounting records and such other auditing procedures as . . . considered necessary in the circumstances." When the principal auditor states, in the scope paragraph, that the accounts of a subsidiary or branch were examined by other auditors, the reader probably assumes that the report of the other auditor included a similar characterization of the scope of his examination. If this assumption is true, there would seem to be no requirement for the principal auditor to repeat the representation as to scope made by the other auditor, un-

less it contains a qualification or exception to generally accepted auditing standards which the principal auditor considers significant in relation to the examination of the consolidated financial statements.

The opinion of the other auditor may include an exception or qualification which involves a material amount in relation to the financial statements of the subsidiary or branch examined by him, but which clearly is not significant in relation to the consolidated financial statements on which the principal auditor is expressing his opinion. This is a matter to be resolved by the professional judgment of the principal auditor, in the same way as he evaluates any other possible exception or qualification. The mere fact that the other auditor has qualified his opinion on the financial statements of the subsidiary or branch would not seem to require the principal auditor to repeat the qualification unless, in his judgment, it is significant in relation to the consolidated financial statements.

Inquiry as to Other Auditors

Rule Six of Rules of Professional Conduct sets the minimum requirement for ascertaining that the other auditor be identified as a member of the American Institute of CPAs, a member of a similar association in a foreign country, or a CPA in a state or territory of the United States or the District of Columbia. This information can usually be found in professional directories, or by direct inquiry of professional associations. Many auditors feel that this procedure should be supplemented by inquiries of banks, attorneys, accountants, etc., in those instances where the principal auditor does not have di-

rect knowledge of the standing and reputation of the other auditor.

In referring to the opinion of other auditors, the principal auditor usually cannot say, of his own knowledge, that such other accountants are "independent", and many auditors avoid characterizations which imply such knowledge. Nevertheless, in view of the requirements of Rules of Professional Conduct that disclosures be made of any lack of independence in the relationship between the auditor and his client, it seems desirable for any misunderstanding of this point to be resolved by the principal auditor. The principal auditor in such cases may advise the other auditor of the requirements of the Rules of Professional Conduct, (and of the Securities and Exchange Commission, if applicable) and may request written confirmation that such requirements have been met.

The problem becomes more acute in the case of foreign auditors practicing in countries where professional auditing standards are substantially different from those prevailing in the United States. In many foreign countries the extended procedures relating to physical inventory tests and receivable confirmations have not been adopted by the profession and are carried out only upon specific request. Further, the usual form of auditor's opinion in foreign countries may not meet the requirements of "Generally Accepted Auditing Standards."

Unless the principal auditor is satisfied that a clear understanding exists and that any problems of this nature have been resolved, he usually informs himself of the standards prevailing in the particular foreign country and advises the other auditor of any additional requirements. Ordinarily this is accomplished by furnish-

ing copies of the applicable Statements on Auditing Procedure, together with specific instructions with respect to the particular phases of the engagement. In some cases, the principal auditor may require a confirming letter from the other auditor to the effect that specific auditing procedures have been carried out.

In those countries which have a different standard form of auditor's opinion, the principal auditor may specifically request an opinion which meets the requirements of "Generally Accepted Auditing Standards." In this connection, it seems obvious that the phrase "generally accepted accounting principles" must be related to those accounting principles on which the principal auditor is required to report and not to the practices which may be followed in the respective foreign countries; thus, the other auditor should be expected to report significant deviations from generally accepted accounting principles in the United States, even though sanctioned by local practice (e.g., in matters such as accounting for deferred income taxes, pension costs, inventory valuations, etc.).

Work Performed by Other Auditors

Although the principal auditor has an obligation to obtain reasonable assurance that the other auditor recognizes his responsibility to observe "Generally Accepted Auditing Standards" it does not follow that the principal auditor is responsible for the reviewing of the work of the other auditor when he does not take responsibility for such work. The extent of such a review, if any, usually depends upon the nature of the arrangements by which the other auditor is engaged, the previous experi-

ence of the principal auditor with the other auditor, the relative importance of the subsidiaries or branches being examined, etc. Similarly, the extent to which the principal auditor may participate in the programming for the examination of the subsidiary or branch will vary according to circumstances. Such participation in programming and review of work performed by others contributes to uniformity of approach, gives added assurance of the observance of auditing standards, and provides the principal auditor with a better understanding of the subsidiary or branch accounts, but the extent of such activities is a matter for the judgment of the principal auditor in the particular circumstances of each engagement.

Problems of the Other Auditor

The auditor carrying out the examination of the subsidiary or branch also has his problems. He may have limited knowledge of the importance of the local operation in the over-all picture. He may be unaware of the accounting controls over branch activities which are maintained in the home office. He may not be in a position to examine contracts, minutes, etc., which are available only at the home office but which may have a bearing on the local accounts. He cannot evaluate the effect on branch accounts of possible transactions originating in the home office which have not been communicated to the branch. Finally, his instructions from the principal auditor may limit the scope of his examination to such an extent that he may be unable to render an unqualified opinion.

Some of these problems can be eliminated, or substantially reduced, if the principal auditor will provide

additional information about the size of the engagement, the plan for the examination of branches and subsidiaries, and the manner in which the local accounts are integrated with those in the home office. In some cases, audit data, such as excerpts from contracts and minutes, authorizations or approvals of specific transactions available in home office, etc., can be obtained by the principal auditor for the local auditor. Inter-company account balances may be furnished by the local auditor, and their reconciliation may be checked by the principal auditor and returned to the local auditor.

On the other hand, if the problem arises because of specific limitations imposed upon the scope of the local auditor's examination, an exception or a denial of opinion may be unavoidable. If the local auditor is unable to resolve a question of material importance in the accounts of the subsidiary or branch, he may have no alternative but to qualify or deny an opinion as the circumstances warrant. Obviously, if he has merely carried out specified procedures, such as receivable confirmations or inventory observations, without making an examination of all of the branch or subsidiary accounts, the standard form of opinion does not apply, and he should merely make a statement of the work performed and the results thereof.

In instances in which the local auditor has been furnished with information about the consolidated financial statements, the relative importance of the local accounts, etc., it is sometimes agreed between the parties that he may report on the local accounts as being fairly presented "for purposes of inclusion in the consolidated financial statements of X Company and subsidiaries," even though

he might have a qualified opinion on the local accounts standing alone. There appears to be no objection to this procedure when used for inter-office reporting within the same firm of auditors; in other circumstances, the principal auditor may prefer an opinion directed solely to the accounts of the branch or subsidiary. The principal auditor can then make up his own mind as to whether or not the qualification concerning the local accounts need be recognized in his own opinion on the consolidated financial statements.

With the prospect of continued expansion of American business abroad and with the incidence of mergers, acquisitions, diversification, etc., here at home, these questions of collaboration and co-operation between professional accountants become increasingly important. Many of the problems inherent in these situations will be eased by greater uniformity in auditing standards; others will continue to require individual attention on each engagement in order to obtain a clear appreciation and understanding of the audit objectives.

ACCOUNTING TERMINOLOGY

From time to time the Accounting and Auditing Research Committee has received suggestions as to additional words that might be included in *Accounting Terminology*. The Committee would be grateful for the comments and suggestions of our readers regarding words they would like to see defined in this publication.

Practitioners Forum

FUTURE OF THE SMALL FIRM

The young chartered accountant starting his own practice today assumes that 25 years from now, when he is in his fifties, there will be a place for him in the business community. What will his role be then? An absence of long-term planning by individuals is to be expected. However, some consideration of what the future may hold for the sole practitioner or member of a small firm is pertinent today.

Other magazines have published articles on the future outlook. While long-term planning is being considered by our Institutes, little has yet been published in Canada. J. S. Seidman, CPA, chairman of the American Institute of Certified Public Accountants' Committee on Long-Range Objectives, discussed "What is the Future of the Accounting Profession?" in *The Journal of Accountancy*, March 1959. H. Benson F.C.A. presented a paper at the 1958 Autumn meeting of the Institute of Chartered Accountants in England and Wales on "The Future Role of the Accountant in Practice". This was published in the October 1958 issue of *Accountancy*. Many of the thoughts expressed and questions raised by these members of the profession have been used in this month's column.

In January 1959, there were approximately 330 firms of chartered accountants practising in Ontario. About

80 had more than 10 C.A.'s and students, and 250 were small or medium-sized firms. Of the 1,400 C.A.'s in practice, about 500 were with large firms (over 10 C.A.'s); 460 with medium firms (4 to 10 C.A.'s); and 440 with small firms (1 to 3 C.A.'s). What is the future of the 30% of practising members who are sole practitioners or who have only one or two partners?

The future of the accounting profession will depend to a considerable extent upon how our members prepare to meet the changing demands of tomorrow. If we are to know what preparation is essential to cope with these demands, it is necessary to know where we are going. Long-term objectives are essential to proper perspective. To quote Mr. Seidman, "The core of the problem is: where should accounting find itself 20 years from today, and how is it to get there?"

Accounting Principles

The determination of accounting principles has been largely left to the practising accountants. However, as the impact of accounting on business life expands, will other sections of the public, such as government, businessmen, economists, wish to participate? Will our "generally accepted accounting principles" survive unchanged? Will inflation or income tax legislation change our historical cost concept? Will the trend to standardization and uniformity be encouraged by

the publication of more bulletins by the profession? Will government legislation remove the areas of flexibility which now exist?

Today the small firms are probably less concerned with these areas than are the national firms. However, if business puts more emphasis on uniformity within each industry, the sole practitioner will have to be better qualified technically or risk losing his audit work to the larger firms. Is this a possibility?

Nature of Services

There have been tremendous changes in the scope of accountants' work since the 1800's in England when bankruptcies and liquidations were the mainstay. In some of the smaller towns income tax and accounting services are most important today. However, the auditing of companies, as required by law, is generally the main reason for existence. Then there is the expanding field of management advisory services. What will happen in these areas during the next 25 years? Will accountants retain their position? Will they strengthen it? Will other groups make inroads?

Will income and estate taxes become so complicated that specialists are required to deal with any but routine problems? Will more work go to the legal profession? Will governments rely more on returns prepared by auditors and less on their own assessors? Will developments strengthen the position of the sole practitioner, or will he find himself technically unable to cope with the demands of clients who require expert tax advice?

Will the management consultant field brim over into the clientele of the small firm? Will this work be done by large firms of practising ac-

countants or by separate management consulting organizations?

Will new areas develop? In England many accountants act as the secretary of companies. There may be new types of audit clients such as labour unions. Accountants could advise wealthy individuals on the handling of personal finances.

We hope that the profession's services will develop in these "higher level" areas. As an offset, will the bookkeeping or write-up work, which sustains so many small firms, diminish? Will automation replace bookkeeping departments? Imagine cash register tapes, cheques and invoices with sensitized paper all going into a central computing unit which produces statements in a few minutes, at a cost far below present methods. What effect would this have on the small firm whose clients use such a service? Will this work be done by computing centres, or will the profession enter the field?

A news item in *The Journal of Accountancy*, March 1960, reported that a medium-sized firm in a small city acquired a "punched-card electronic computer" to process data for regular clients. This alternative is probably not practical for the 30% of C.A.'s in small firms.

Structure

Will there be legislative changes affecting the profession? Will these reduce the number of designations and restrict the licence to practice, or will new groups come along? Will the present variety of qualifications continue to exist? A trend in the direction of restricting licensing would help the sole practitioner because at present he is faced by competition on a price basis from accountants whose

standards are not as demanding as those of chartered accountants.

Will the business structure of the accounting profession change? Will the present variety continue? We have the "national" firm with its international connections and offices in all principal cities; the large local firm, perhaps with some branches but most of its strength in one city; and the smaller independent firm. Will the post-war rate of mergers continue? Perhaps the larger organizations will grow and the smaller ones disappear. Or will the profession separate into two distinct classes: a major league of national firms and a minor league of local firms?

Will the sole proprietor be able to survive? How will he solve such problems as taking care of his practice in the event of disability, recruiting staff and keeping abreast of technical developments? Will there be post-graduate schools in accounting?

Problems

Will accountants' legal responsibilities undergo any significant changes? Any undue increase in our liability would add to audit and insurance costs and perhaps retard the development of auditing practice.

Will the supply of recruits to the profession continue to be adequate, or will opportunities in science and engineering expand and draw off the better brains of the future? Will our facilities for recruitment, education and training be adequate to ensure competence? How will the cost of these be met?

At present many sole proprietors are unable to get satisfactory staff and have comparatively inadequate facilities for training students. They rely on clerical help, usually women. As

long as a good part of their income is from clerical work, this situation will continue. However, should computing centres take over the clerical duties they will have to gross more fees for their own time, spent directly serving clients and less for work done by staff. Other professions, such as law and medicine, are in this position now.

Specialization

There are many indications that specialization is increasing. The editorial "Professional Co-operation" in *The Journal of Accountancy*, March 1960 concluded:

"As accounting becomes more complicated, and as more professional accountants become specialists in various branches of their art, relatively few firms will be able to furnish all of the technical accounting services which all of their clients may need. At the same time, many small and medium-sized businesses will continue to find that a small or medium-sized public accounting firm best meets their needs for most outside accounting services.

"If such clients can be confident that a specialist will be brought in when needed — and if their regular accountants can be confident that the specialist will not try to take over the client — clients will be well served, and both small and large accounting firms will find a relationship which is to their mutual advantage."

Specialization will probably develop in such areas as taxes and management services. Will specialists also develop in certain industries such as hotels, automobile dealers, insurance? If so, will this mean that only the large accounting firms, covering a considerable area, will be able to

handle specialized work? Will specialization develop as a department in the large firms? Will individual accountants be able to earn a living as independent specialists? Will accounting firms or clients refer to individual specialists as is done in the medical field, or will they prefer to deal with the large firm?

How will specialists be qualified? Will the profession conduct the education, training and accreditation or will all this be done by independent bodies such as the Society of Industrial and Cost accountants with their "R.I.A." designation? Will formal qualification be recognized for specialists in areas such as income tax? Will this trend to specialization assist the profession in its growth and unity, or will it cause internal strife?

Outlook

Larger firms will be better able to cope with changes arising from technical advances such as automation. They may also have an advantage in providing training and experience to cope with specialization. The smaller firm could be more flexible. However, flexibility does not depend primarily on size; age is a more significant factor.

As long as there are small businesses, there should be work for the small firm. As long as there are individualists who wish to "run their own show", there will be small businesses. Our future depends on people and their need for us. There may be radical changes in machines and science, but people do not change so quickly. There will still be businessmen who will want personal services. As long as we are adaptable and prepared, we will find work. Even if the records of small business are kept

by centralized accounting units, there will still be a need for analysis and interpretation of the results, and advice on financial matters. Is this the future role of the small firm?

Requirements for Survival

To cope with the changes and challenges of the future there appear to be five basic requirements:

(1) Flexibility to cope with new conditions as they arise. By taking in young partners and giving them a voice in policy, older practitioners can avoid becoming set in their ways.

(2) Preparation for the future. A positive program of training and education for both employees and partners is essential. This should provide for development of opportunities for specialization.

(3) Adequate finances to take care of any losses during periods of adjustment and to provide funds for any additional investment needed.

(4) Clients who will continue to yield an adequate volume at high enough rates of fees. This is contingent upon having the "right" type of clients. When there is a shift in the type of work done, firms that lose little volume from obsolete services, and gain additional volume from new services, will survive.

(5) Obtaining competent personnel will be a problem. In view of the probability of continued scarcity of good audit students, a positive program for selecting, training and keeping good personnel is essential. A small office in 1970 might consist of one partner, one C.A. employee, two students (university graduates), a stenographer, and perhaps a female bookkeeper.

Tax Review

ANNUAL SUBMISSIONS FOR TAX CHANGES

Recent press reports, editorials and other commentaries suggest that for the Ministers of Finance and National Revenue, the taxpayer with recommendations for tax changes may be a more reliable harbinger of spring than the traditional robin. Pickings on Parliament Hill are slim in some years for both robins and taxpayers, but fortunately neither are easily discouraged and return year after year.

It is very desirable, of course, that various groups and associations should review annually our tax laws and make recommendations for improvements. It is too much to expect that those entrusted with the administration of tax legislation will detect every weakness or be blessed with complete comprehension of the practical consequences of the numerous provisions of our tax laws. On the other hand, taxpayers are not always as keenly aware as is the administration of the problems which ensue from the enactment of seemingly simple changes to the law. Happily, neither Government nor taxpayers lay claim to omniscience, and unremitting pressure for improved tax legislation tests the wisdom of both sides.

There may be a natural tendency on the part of the administrative branch of the Government to resist change and it is possible that communication between the administra-

tive and legislative branches is as difficult in Government as in any organized activity. For these reasons, if no other, the annual submissions which are made by taxpayers serve a very useful purpose, particularly as they often take the form of constructive criticism, although tinged on occasion with exasperation.

Royal Commission

One of the recommendations made this year in the brief submitted by the Joint Committee of the Canadian Bar Association and the Canadian Institute of Chartered Accountants was for a Royal Commission or Special Committee. It was stated "... to solve the designated surplus problem we have suggested going to the root of the matter — our double taxation scheme. We recommend that a Royal Commission or Special Committee be appointed to study the problem with the object of developing a new approach for your consideration." This recommendation and that on advance tax rulings were the two recommendations by the Joint Committee which appear to have received the most attention from the press.

If a Royal Commission were appointed, its terms of reference would presumably be quite specific and would clearly indicate whether its purpose would be to solve the problems which sometimes result from "designated surplus" or to review the

system of double taxation generally.

Undeniably, the designated surplus provisions of the Income Tax Act have created problems for taxpayers, which, after all, was their intention. The purpose of "designating" surplus was to prevent one taxable Canadian corporation from purchasing control of another and paying for the shares by receiving tax-free dividends from the new subsidiary company out of pre-acquisition earnings. Revenue's first attempt to close this method of short circuiting the double taxation system was only partly successful. Taxpayers indignantly protested that it was confiscatory to tax dividends out of designated surplus at ordinary corporate tax rates and masochistically pointed out that a company's surplus could be drained off, tax-free, through either a dealer in securities or a non-taxable organization. It was observed, also, that foreign corporations which acquired Canadian subsidiaries were unaffected by designated surplus. These oversights were corrected and, until the enactment of section 105C, many taxpayers were more or less reconciled to the fact that the distribution of designated surplus could not be accomplished without payment of tax.

In practice, the payment of the full rate of tax upon the distribution of designated surplus is avoided and often results in unwieldy corporate structures and unnatural arrangements between corporations in a group. Where it is imperative that the surplus be distributed, taxpayers find the use of section 105B and a dealer in securities to be the most practical. This section permits the distribution of a designated surplus to a dealer in securities at a tax cost of 20% which is considerably less than

the normal corporate rate of 50%. For some time it has been contended by practitioners that the rate could effectively be reduced to 16-2/3% by paying a dividend equal to 83-1/3% of the designated surplus; the tax at 20% upon this amount wiping out the balance. This is not yet admitted by the Department of National Revenue and the contention of either side has yet to be proved.

Whether the tax on designated surplus be 16-2/3% or 20%, the important point is that even the reduced rate of tax is not low enough to coax out the shy, designated surplus. But surely the problem is not unsurmountable and it is to be fervently hoped that the Royal Commission or Special Committee (if appointed) will not be restricted to the problem of designated surplus alone. Various solutions have been suggested to deal with this recurring crisis, all of which have some merit, and it would seem that the answer is for the Government to refer the whole question to a group of qualified men who can devote the time required to study it.

As for the subject of double taxation generally, this might well be an area which should be re-explored, and it is hoped that the linking of designated surplus to the question of double taxation is merely a point of emphasis for a thorough examination of the latter. It is generally agreed that the economic effects of double taxation are not readily discernible. To what extent it affects the financing policies of corporations or influences the attitude of investors is not entirely clear. One would expect, for example, that for tax reasons a corporation would prefer bonds to stock for financing purposes since the interest requirements can be satisfied with less income. On the other hand, the in-

dividual who has the choice of buying bonds or preferred shares bearing the same rate of return might be expected to purchase preferred shares because of the 20% dividend credit. Whether these conflicting interests are good or bad for the economy ought to be a stimulating enquiry for such a Commission. There are, of course, other areas, such as the question of whether or not corporation taxes are passed on to the consumer, that are worthy of enquiry, as it is fairly obvious that double taxation has affected the Canadian economy in diverse ways. It would be useful, therefore, to appraise the long term trends likely to ensue and to decide whether the system should be changed.

The Canadian Chamber of Commerce, in its brief, recommended "... that a thorough re-examination of the entire Canadian tax structure should be undertaken without delay, including the revenue sources and needs of all levels of government". The Chamber of Commerce observed, in reference to the tax structure, that "the present system has grown up over the years under the impact of successive annual revisions designed primarily to meet immediate needs. No one can say what is its real incidence, what are its effects on savings and incentives, what are the anomalies it perpetuates in security markets, or how much it contributes to careless and wasteful business practices. A detailed review of the entire philosophy behind it is long overdue".

From the foregoing statements it would appear that the Chamber of Commerce recommended an inquiry that would be concerned with very much more than either the technical deficiencies of the Income Tax Act

or the philosophy of double taxation. The revenue sources and needs of all levels of government present a wide field for study and its importance may outweigh the technical shortcomings of the Income Tax Act. It is true that there are many points on which the Income Tax Act falls short as is obvious from the joint submission by the Canadian Bar Association and the Canadian Institute of Chartered Accountants, reproduced in the March issue of *The Canadian Chartered Accountant*. Nevertheless, by and large, the Income Tax Act is a well drafted statute of logical and comprehensive design, as is also the Estate Tax Act for that matter. The Excise Tax Act and the Customs Act suffer very markedly by comparison, which suggests that lawyers and accountants have not examined the legislation on sales and excise taxes and customs duties with anything like the intellectual vigour which they have devoted to income tax legislation.

Advance Tax Rulings

Over the past several years an increasing number of taxpayers have been attracted to the United States system of advance tax ruling. The meaning of many provisions of the Income Tax Act, like those of much modern poetry, are not always as clear as the reader would like them to be. The combination of high tax rates and the uncertain application of the law cast a pall of anxiety over proposed business transactions. When this occurs, the natural inclination of the taxpayer is to turn to the Department of National Revenue to obtain its reaction. The interest in tax rulings would seem to suggest that the Department has been disinclined to express an opinion on many proposed

transactions and taxpayers have been compelled to plot their courses as best they can.

With some justification, taxpayers may feel that a completely non-committal attitude on the part of the Department is not defensible, since eventually it must take a position if the taxpayer goes ahead with the proposed transaction. Thus, it is contended that advance tax rulings by eliminating uncertainty would encourage investment and business activity, avoid needless litigation, improve administration of the Act, keep the Revenue in touch with the thinking of taxpayers, and promote uniform assessing practices. These contentions are probably true enough but only a few people realize the staggering costs involved. A system of advance rulings requires an extensive staff organization and the publication of all such rulings with further printing and general administrative costs. Whether the advantages outweigh the additional costs is open for argument, but it must not be forgotten that at the present time opinions and informal rulings can be and are being obtained without undue effort and at reasonable cost. It is true that such ruling or opinions are not binding in a legal sense, but they are entirely effective in practice.

In some quarters it is felt that a partial solution would be achieved if the Queen's Printer were to offer a public edition of that most sacrosanct of books popularly referred to as "The Assessor's Guide". This seems a questionable conclusion for a number of reasons. Since that compilation presumably expresses the Department's policies on a variety of matters in a general way, it would be dangerous for taxpayers to rely upon it. Such a step would have the practical effect

of creating a codification of the law in the eyes of the layman. It cannot be over-emphasized that the law is the prerogative of Parliament and the Courts and that it should not be tampered with.

Other Submissions

The submissions by the Chamber of Commerce and the Canadian Manufacturers' Association, among others, were not restricted to recommendations for amendments to the Income Tax Act and dealt with the Excise Tax Act, the Estate Tax Act, the Customs Act and the Customs Tariff.

The Canadian Manufacturers' Association recommended that special excise taxes on automobiles, toilet articles, phonographs, television sets, clocks and watches and the various other items in Schedule I of the Excise Tax Act be abolished or substantially reduced as soon as revenue conditions permit. The possibility of such a condition being met would disprove Parkinson's Law, one of the tenets of which must surely be that revenue conditions never permit tax reductions although impending elections may. The Association recommended that the present exemption from sales tax for raw materials, processing materials and production machinery be extended to articles and materials that enter into the cost of manufacture or production. It also recommended that all building materials should be exempted. Other recommendations were concerned with "sales price", an appeal procedure and the publication of rulings and interpretations. It was recommended, also, that purchasers be made responsible for the certificates they issue and that vendors be held responsible only where the certificates

are not in proper form or where the vendors had reason to believe the certificates were false or inaccurate. It has always seemed rather odd that the vendors should be held responsible rather than the purchasers.

There is little that is new in these recommendations but that makes them no less worthy of repetition. It is interesting that the Association's brief mentioned the Carter Committee several times. It would be a pity if many of the recommendations contained in the report of that Body are not acted on soon.

By the time these remarks appear in print, Mr. Fleming will have presented a budget which may have been influenced by the submissions which he received earlier this year. To those who made submissions, the public at large owe a vote of thanks for the time and effort devoted to their preparation and more importantly, for the sense of responsibility that they reflected.

THE LAW

Quebec Education Tax

As intimated in the press earlier, the Province of Quebec will increase the corporation tax from 9% to 10%. This change becomes effective on January 1, 1960. If the financial year already in progress on January 1, 1960 does not correspond with the calendar year, the tax for such financial year will be imposed at the rate of 9% for the portion included in the calendar year 1959 and at the rate of 10% for the portion included in the calendar year 1960.

While the text of Bill 60 was not available at the time of writing, it is also understood that a profits tax of 1% will be imposed upon trust companies. The tax of 2% upon gross

revenues of such companies, which was formerly imposed in lieu of a profits tax, will remain.

Federal Capital Cost Allowances

Changes have been made in the Income Tax Regulations respecting capital cost allowances for 1959 and subsequent taxation years, as follows:

Class 6 - 10%:

Aeroplane hangars acquired after the end of the taxpayer's 1958 taxation year have been added to this class. Hangars already owned in 1958 will still be allowed a rate of 5% or 10% depending upon the construction.

Class 10 - 30%:

Automotive equipment that is part of a railway system and not designed to run on rails or tracks if acquired after the end of the taxpayer's 1958 taxation year is added to this class. This change is brought about by excluding such equipment from Class 4.

Class 12 - 100%

Added to this class is "apparel or costume, including accessories used therewith, used for the purpose of earning rental income therefrom".

Class 18 - 60%:

This new class permits the amortization of motion picture films at the rate of 60%.

RECENT TAX CASES

Business Losses

The appellant company was engaged in the business of operating a retail store for selling ladies' ready-to-wear clothing directly to consumers during 1951 and 1952, and suffered losses during those years. In 1954 the premises were destroyed by fire and the business was discontinued. In

1955 the appellant purchased the business of a company which was engaged in manufacturing men's trousers and ladies' slacks, and thereafter, sales were made principally to retail outlets. In 1956 the company earned a profit and sought to deduct therefrom the business losses incurred in 1951 and 1952. The Minister disallowed the deduction of the previous losses (section 27(1)(e) not having been amended at that time) on the grounds that the losses were not incurred in the business in which the profits were earned.

The company's appeal was allowed by the Income Tax Appeal Board which held that the businesses were the same. The fact that the company was selling to individual consumers in one year and to retailers in a subsequent year was not sufficient, felt the Board, to warrant a finding that the company was in a wholly different business in each of the years in question. While it was true that a section which permits a deduction should be strictly construed, there are limits to the strictness which should be observed and the Board felt that the Minister had gone far beyond what was reasonable. (*Martin & Company (E.P.) Ltd. v. M.N.R.*)

While the question of whether or not a business is the same will only be of importance now where the shares of a company have changed hands, it is interesting to observe the Board's reasons for considering a retail business to be the same as a manufacturing business, especially

when there has been a complete removal from the old premises, customers and methods of doing business. In the view of the Board, the appellant was, at all relevant times, engaged in the sale of clothing and this was its business. This is directly in contrast with a similar case heard 23 days earlier but released subsequently wherein it was held that a garage and automobile business was not the same when operated in two different cities. No doubt each judgment was correct in the circumstances, but at the same time there appears to be a legal contradiction which ought to be resolved. In the *Martin* case, the taxpayer's business was destroyed and he sought to get back into it although in a slightly different manner. In equity the losses should have been and were allowed. In the garage case (*No. 638 v. M.N.R.*), a garage proprietor purchased the shares of a defunct Montreal garage company and moved the company's place of business to Quebec where it carried on the business of the new owner. While the businesses that were carried on by the company were definitely of the same type, they were held not to be the same business, and here again, the Board may have been influenced by considerations of equity. The Board ruled that if losses are to be deductible, there must be a continuity of operation between previous losses and subsequent profits, which certainly did not exist in the case, since the Quebec business had no connection or continuity with the original Montreal business.

Current Reading

ACCOUNTING

MANAGEMENT ACCOUNTING PROBLEMS IN FOREIGN OPERATIONS. NAA Research Report 36, March 1, 1960, 71 pages.

This report is concerned with the problems of providing management with the financial information needed for control and decision-making purposes. While the emphasis is upon management in the United States, limited attention is also given to local foreign management where the subject matter is of concern to foreign management as well to domestic management. As an accounting study, the report deals with information drawn from the accounts or developed by analysis from the accounts and related data. However, some discussion of certain financial management functions has been included in order to show the end uses of accounting reports in connection with these functions.

Chapter 2 briefly presents accounting problems which often characterize foreign operations and discusses methods followed by some companies in solving them. The conclusion reached is that the principal problems in accounting for foreign operations result from the fact that accounts are expressed in different currencies. The remaining chapters are devoted to a discussion of these problems.

In this study no attempt has been made to cover either U.S. or foreign

taxes relating to foreign operations. Neither does the study cover records and reports required by foreign governments.

AUDITING

"PREVENTIVE AUDITING" by H. F. Anderson. *The Internal Auditor*, March 1960, pp. 21-27.

One of the phases of business activity with which internal auditing is concerned is the disclosure of fraudulent practices. Of greater concern, however, should be the prevention of such practices.

This article enumerates and illustrates a number of preventive measures that have proved to be effective in the petroleum industry. But many of the concepts and practices, ranging from the control of stock, stores material and tools, to the control of collections by agents, salesmen, truck drivers and service station operators, can be applied equally well in other industries.

At the bulk plant level, in the accountability of bulk liquid products, most oil companies allow $\frac{1}{2}\%$ of the throughput for evaporation and handling losses. Agents with shortages under this allowance are tempted to dispose of the gain: (1) by not reporting the gasoline used in their own cars, (2) by disposing of it to service stations which they own and control, or (3) by selling it to independently owned service stations and not reporting the sales.

As a preventive measure, the author's company requires agents to submit a monthly report on the operation of their own automotive equipment. This is supplemented by an independent check by the company's internal auditor. To prevent the unauthorized delivery of gasoline to agent-owned service stations, the company auditors take periodic cumulative readings of the service station pump meters: sales are verified to purchases, with allowance for inventory fluctuations. Unauthorized and unrecorded sales to the independent dealers are checked by searching for irregular delivery tickets on file at the stations. This check, according to Anderson, has disclosed instances where agents invoiced dealers by using "copy" tickets and pocketed the proceeds. The embezzlement, in one case, amounted to \$5,000.

Because cash collections are made by a number of people, including agents, salesmen, truck drivers and service station operators, control over remittances is a problem of magnitude in the oil industry. Preventive measures that have proved to be successful are discussed by the author. He concludes on the note that "better preventive measures can be established by the auditors, whatever business they are associated with, which will keep them one jump ahead of the rascals who are trying to outsmart and possibly embarrass us".

LABOUR

"THE BARGAINING OUTLOOK FOR 1960" by William Karpinsky. *The Management Review*, March 1960, pp. 9-17.

In this preview of the bargaining outlook for 1960, Mr. Karpinsky, an industrial executive, foresees a year

of widespread labour peace in the United States, with the number of strikes and man-days lost due to work stoppages approaching "record lows". Few labour agreements covering large industries are scheduled to expire this year, he notes, so that the possibility of mass idleness through strikes is unlikely.

Wage rates will continue the slight upward trend established in 1958 and 1959, Mr. Karpinsky continues. He attributes the uniformity in annual wage growth in recent years to long-term contracts which relate wage increases to productivity gains, the existence of a fairly large number of unemployed, and escalator clauses and negotiations during a period of stability in the cost of living index.

The elimination or modification of obsolete work rules has been a controversial feature of contract negotiations in recent years. To prevent future repetitions of the current explosive situation, Mr. Karpinsky argues that it is easier to prevent ineffective practices from getting started than to persuade employees to relinquish benefits once they have been acquired. But for companies planning to negotiate work-rule changes he recommends the single-minded approach of the Canadian railroads, which concentrated solely on the issue of firemen on Diesel engines for "four years and two strikes" before accomplishing their objective. This is to be preferred, he says, over a "buckshot" approach of asking for broad authority to make *any* desired changes. Also recommended is the use of efficiency and economics to justify changes and the avoidance of such slogans as "restoring management's prerogatives to manage". The very nature of collective bargaining,

Mr. Karpinsky points out, involves some surrender of management rights.

FINANCE

"EFFECTS OF TIGHT MONEY SURVEYED". *The Controller*, March 1960, p. 130.

The results of a survey of industrial executives by the National Industrial Conference Board on the effects of tight money and high interest rates on 1960 business operations are reported.

Close to 40% of the 228 respondents anticipate a slowing down in accounts receivable collections in the year ahead. Many responding executives report that continued high interest rates will dictate stricter implementation of credit policies to overcome any tendency on the part of customers to stretch out the payment period. A small minority of firms intend to relax credit to prevent the tight money situation from cutting into their sales volume. The majority view is that credit policies will not change at all in 1960.

Only 3% of the companies surveyed expect tight money to cause a cut-back in their capital spending plans for 1960, although some have reduced their planned increase in capital spending. In other cases the justification for proposed projects will be examined more closely as a result of the tightness of funds. Internal financing will be the sole source of funds for capital spending in 90% of the firms surveyed. Apparently, a high degree of liquidity will mitigate the impact on plans for new plant and equipment.

Steps are being taken by 40% of the survey participants, however, to improve their cash management, primarily by tighter control over inventory investment. Many firms feel that al-

though tight money has had little effect on their operations to date, a continuation of the present scarcity of funds and high interest rates is bound to be reflected in their cash position during 1960.

MANAGEMENT

RETURN ON CAPITAL AS A GUIDE TO MANAGERIAL DECISIONS. NAA Research Report 35, December 1, 1959, 107 pages.

This report, which is a product of the NAA Research Project Committee, summarizes the practices of 44 major companies, submits 24 tabulated exhibits, and appends a comprehensive bibliography.

Part I of the report deals with the periodic measurement of profit performance under the profit responsibilities established by a company's organization plan. Part II discusses applications of the measure for evaluating the economic worth of projects involving the acquisition, modernization, and replacement of plant and equipment.

In applying rate of return on capital, variations arise in defining capital and income related to this capital. In this connection, 32 companies base rate of return on assets. Of these, 28 include all assets available; 4 limit capital to assets employed, thus eliminating idle or excess assets from the base. Six firms use assets provided by stockholders and long-term creditors. Seven companies focus on return to stock equity. Assets rather than equity constitute the base where it is desired to appraise the performance of operating management apart from financial management. Return on stock equity reflects the performance of financial management in providing capital as well as operating

management's use of assets. It is used in closely held companies where stockholders are closely identified with operating management.

The principal questions that arise in defining income centre around the inclusion or exclusion of dividend income, interest income, interest charges, income taxes, depreciation charges, and various non-operating charges and credits. Two objectives underlie the decisions made. The first is consistency between definitions of income and capital. The second is to present a rate of return figure that represents current operating performance. For this reason, various non-operating and non-recurring charges and credits are excluded from income for calculating rate of return.

The remainder of Part I of this report describes how to measure performance by segments of a company, how to analyze changes in rates of return, and the use of the measure as a guide in pricing.

Two quite different approaches have been developed for measuring project rates of return. Described in Part II of this report are the "financial statement method" and the "discounted cash flow method".

"HOW TO APPRAISE EXECUTIVE PERFORMANCE" by Arch Patton. *Harvard Business Review*, Jan.-Feb. 1960, pp. 63-70.

Since individual capacity cannot be prejudged with any certainty, the ability to judge performance on the job becomes of critical importance in appraising executives. Early efforts in this direction were either wholly subjective in approach or swung to the other extreme of setting individual goals in quantitative terms only.

The author of this article outlines a planned performance approach which blends the subjective and mathematical approaches into a new management tool. This composite method of appraisal relates the performance of executives to their individual responsibilities by establishing annual targets for the individual which are implicit in the job held. Short-term company objectives are translated into 12-month goals for individual executives by setting up both quantitative and qualitative tasks to be performed during the period.

Advantages of this approach are that individual targets are related to the short and long-term goals of the enterprise; outstanding and poor performers receive primary attention; appraisal is objective, not subjective; and mathematics provides guidelines, not final decisions.

Companies using this approach believe its greatest contribution stems from the discipline it imposes on the management process. It takes a great deal of top management's time in its early years. But companies using it believe it to be a major improvement over earlier efforts.

PROFESSIONAL

"ADMINISTRATION OF A C.P.A. PRACTICE" by Max Block. *The New York Certified Public Accountant*, March 1960, pp. 209-211.

Clients of small and medium-sized accounting firms often insist on the personal services of a partner when the latter, because of the growth of the firm, has to rely increasingly on his staff for substantial assistance. To contend with this condition without compromising integrity, Max Block offers a five-part approach.

First, he suggests, place the client in a receptive mood so that he will judge the accountant's case on the basis of reason rather than emotion. Then talk up the virtues of your firm, your tax man, your systems man, your well-trained and carefully supervised staff, your practical reports, and your many highly pleased clients. Next, point out that the business owner himself must delegate work and that his own customers are still well served. Point out, too, that the accountant principal keeps in close touch with each client's affairs both directly and indirectly. He may handle tax matters, bank relations and non-routine items himself, and be available for consultation on all other matters of importance. When all else fails, the client will certainly see that the performance of routine tasks by junior accountants whose daily rate is much lower than that of a senior or partner will result in a material economy in the fee for services rendered.

BOOK REVIEW

"Business Experience with Electronic Computers", prepared for the Controllers Institute Research Foundation Inc., New York, by B. Conway, J. Gibbons and D. E. Watts; 191 pages; \$5.00

Answers as to whether or not a decision should be made to employ electronic data processing in the major areas of clerical work of an office are contained in the first part of this book. The many mistakes which can be made in this preliminary research and planning period are well-defined, with advice on how to avoid them. Some timely information is given on the approach to a specific style of computer and what might be needed to influence a final choice.

Much, if not all, of the success or failure of an EDP installation depends upon the cooperation and understanding received from top management, senior executive groups and operating personnel. Lack of a broad research and educational program will surely spell disillusionment, if not failure, and much unnecessary expense.

It may surprise those studying this problem to find that the original planning should be subject to detailed reappraisal at about the time the schedule calls for setting up the conversion and programming. A small, well-trained team should take over and review everything in the light of the known facts. This section of the text is important as it points up the vital need to master-mind the many problems involved.

While EDP equipment functions with a high degree of accuracy, the success of installations is due to the attention given to program control in order to detect errors, mostly human. This is a complex subject and the text gives general rules for setting up controls and preventing unauthorized changes. The references to audit trails are well worth careful attention.

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Publishers' Addresses

- The Controller*, 2 Park Ave., New York 16, N.Y.
Harvard Business Review, Soldiers Field, Boston 63, Mass.
The Internal Auditor, 120 Wall St., New York 5, N.Y.
The Management Review, 1515 Broadway, Times Square, New York 36, N.Y.
National Association of Accountants, 505 Park Ave., New York 22, N.Y.
The New York C.P.A., 355 Lexington Ave., New York 17, N.Y.

Students Department

PREPARATION AND MAINTENANCE OF PERMANENT FILES

by D. H. Hall, C.A.

In these comments, a "permanent file" is considered to be a working paper file, other than a current working paper file, maintained in respect of an audit engagement. It contains accumulated working papers of a more or less permanent nature relating to more than one financial year.

The most common faults of permanent files are the following:

1. Faulty indexing, or complete lack of it.
2. Lack of arrangement and inadequate cross reference.
3. Excessive material.
4. Inadequate material.
5. Failure to transfer out-of-date papers to a transfer file.

In many cases one more basic shortcoming may be added, namely, the difficulty of reading what the accountants have to say. In this connection, there is much to be said for maintaining permanent files in ink. It has even been suggested by some accountants that at least part of the data should be typed. At the present time, however, most firms apparently require neither procedure.

Suffice it to say, that it is a frustrating experience for an accountant who is to carry out an audit for the first time on his own initiative to turn to

the permanent file for guidance and find it to be a confused, mixed-up, un-indexed mass of illegible writing!

Indexing

It is just as important that the permanent file be properly indexed and cross-referenced as that the general audit working papers be so kept.

The most common method of indexing uses the letters of the alphabet to indicate the various sections of the permanent file, as follows:

- A Charter and by-laws.
- B Minutes of shareholders' and directors' meetings; also meetings of executive committees, if such exist.
- C Extracts from agreements.
- D Notes on accounting principles used, and decisions as to accounting matters reached between client and auditor.
- E Organizational charts.
- F List of employees authorized to sign and approve.
- G Classified summary by years showing selected locations, months and periods for detail checking (cash, sales, purchases).

The last item is not found in many permanent files, although the maintenance of such a summary does have considerable merit. The partner or manager in charge of an audit engagement can tell at a glance which locations or months have been select-

ed for checking in past years and so may decide quickly on the times and places for the current check. If no schedule is available, it is necessary to refer back to previous years' audit working paper files, which can be tedious.

Let us consider each of these sections and see what information we might expect to find therein.

Charter and By-laws

The important matters contained in the charter are:

1. Letters patent under which the company is incorporated, whether provincial or federal, or by special Act of Parliament. This will determine under which Companies Act the auditor must report. To an extent the Act under which a particular company is incorporated will govern the form of the auditor's report, the balance sheet and profit and loss statements, and the form of the notes to the financial statements.
2. Exact name of company, which is most important in the preparation of financial statements. This includes the question of brackets, commas, etc., and whether "Limited" is spelled out in full or the abbreviation "Ltd." is used.
3. Date of incorporation, the date from which the auditor must report.
4. Outline of the objects and powers of the company. In the case of most charters issued in Canada these powers are usually quite broad in nature.
5. Description of the authorized capital stock, outlining the different classes of stock, i.e. preferred and common, and the rights and privileges attaching to each class.

Under the various Acts, supplementary letters patent are necessary in order for a company to do certain things such as increase its authorized capital. Generally speaking, the notes or extracts made on supplementary letters patent are similar to those made on the original letters and should set out the date of the supplementary letters and the nature of the change from the original.

No lengthy comment is needed on by-laws. The file should have copies of, or extracts from, all by-laws of the company, and the extracts of each by-law should be accompanied by notation of the dates on which such by-law was approved, 1) by the directors and 2) by the shareholders. There should be a cross-reference to the working papers which indicate such approvals.

Also, under this section come bond indentures and long-term debt provisions. In most cases, it will be necessary to have a copy of the supporting trust deed, usually too massive a document for inclusion within the permanent file. However, it is good procedure to include in the file certain basic information relating to the long-term debt, such as principal amount, date, maturity, denominations, interest rate, redemption privileges and sinking fund requirements. Reference should also be made in the audit files as to where the trust deed is located.

Minutes of Shareholders' and Directors' Meetings

There are a few basic points to mention:

1. The date of the meeting must be indicated.
2. A margin of about 1-1½ inches down the left hand side of the

working paper allows for insertion of appropriate sub-headings, such as "Election of directors", "Appointment of auditors", "Declaration of dividends". These headings facilitate reference and make the extracts neater and more easily reviewed.

3. If the company bases its directors' fees on attendance at meetings, it is a good idea to list the names of the directors in attendance at each meeting in order to facilitate the checking of the fees in the audit working papers.
4. Approvals of salaries, dividends, fixed asset additions, important contracts, etc. should be cross-referenced to appropriate papers in the permanent or other files.
5. Indication should be given as to whether the minutes examined have been duly signed.
6. A further point, which may not be generally found in practice, is to note the date of the previous meeting the minutes of which are adopted in those minutes being scanned. In this way, continuity may be checked, and the reviewer can feel assured that he has seen minutes of all meetings which have been held.

Agreements

The information required in the permanent file with respect to agreements is as follows:

1. Names of parties involved
2. Date or period
3. Details of agreements
4. Interest, if any
5. Terms of payments
6. Contingent liability, if any
7. General comments
8. Approval.

Any list of the types of agreement most often encountered would include the following:

1. Leases
2. Welfare plans
3. Pension plans
4. Profit sharing plans
5. Contracts for sale of securities
6. Commission agreements
7. Franchises
8. Reorganization plans and contracts
9. Agreements with officers.

Other Information

The next section of the permanent file is devoted to notes on accounting principles used and decisions as to accounting matters reached between the client and the auditor. In this section we might expect to find a copy of the company's accounting manual, notes on any special or unusual accounting practices, notes on any decisions agreed upon between auditors and client, and a copy of the internal audit program and instructions. We would also get from this section a list of the books of account, and of principal records and forms used, together with a notation as to which employees are responsible for their preparation, a chart of accounts, and finally notes on any changes in accounting practices over the years.

The remaining sections are, for the most part, self-explanatory. They provide for inclusion in the permanent file of the company's organization chart, a list of the responsible employees authorized to sign and approve various company documents and records, and a classified summary by years indicating locations, months and periods selected for detail check-

ing. The last has already been commented upon briefly; with regard to the other two, it need only be emphasized that such material must be kept up to date if it is to be of any real value to the auditor.

In many public accounting firms, much greater emphasis is now being placed upon obtaining copies of original documents such as letters patent, by-laws, important agreements and minutes. Copies of these documents are often readily available. Further, copying and duplicating devices are so commonly used today that, if printed copies are not available, the auditor should not have much difficulty in arranging to have duplicates made.

There are two advantages in favour of obtaining copies:

- (i) *economy*—a senior accountant is usually involved in reviewing minutes and making extracts, and often it can be a time-consuming job.
- (ii) *completeness* — problems often arise concerning agreements, and obviously a partner or manager is better able to deal with such problems if he can consider the exact wording of an agreement rather than have to rely on extracts which may not be complete.

Even if copies of agreements, minutes and other documents are obtained, it is suggested that the pertinent sections, important to the auditor, should be underlined. Such underlining will ease the task of review and greatly facilitate cross-reference.

NOTES AND COMMENTS

Bien que le peu d'espace dont nous disposons ne nous permet pas de

publier tous les articles tant en anglais et en français, il nous sera agréable de recevoir toutes lettres, problèmes, questions, et articles en français et d'accorder une considération impartiale à tout matériel reçu.

AUDIT CASE

The president, and controlling shareholder, of a medium-sized manufacturing corporation has placed certain restrictions on the scope of the audit required under the provisions of the Companies Act, 1934. The most significant restriction was that the auditor is not to attend at the annual physical stocktaking.

The above restrictions arise from the president's desire to minimize audit costs. Further, the operations of the company are under his close supervision, and accordingly he felt that the audit review was redundant.

The auditor was guided by the following opinions as to generally accepted auditing practices in carrying out and reporting on his examination:

1. C.I.C.A. Research Bulletin No. 7, issued October 1951, stated in part "It cannot be said that generally accepted auditing procedures in Canada at the present time require attendance by the auditor at the physical stocktaking". It stated that generally accepted audit procedures do include: (1) review of the methods followed in the determination of quantities and values, (2) the testing of the inventory quantities with confirmatory evidence such as rough count sheets, perpetual stock records etc., (3) the testing of pricing of the inventory and its clerical accuracy.

C.I.C.A. Bulletin No. 16 has been published since the above case was considered. This bulletin supersedes

Bulletin No. 7 and recognizes attendance at physical stocktaking as a generally accepted auditing practice. Bulletin No. 16 recognizes that other procedures can be substituted for attendance at physical stocktaking and recommends qualification of the auditor's report only where the auditor has not satisfied himself as to the basis of valuation and physical existence of the inventory.

2. The American Institute of Certified Public Accountants considers attendance at stocktaking "as an integral part of generally accepted auditing procedures. Failure to apply them wherever practicable or reasonable in general, precludes expression of an opinion on the financial statements taken as a whole". The American Institute has further recommended that failure to attend at physical stocktaking be disclosed in the auditor's report regardless of whether or not the procedure is practicable or reasonable and even though the auditor may have satisfied himself by other methods.

3. It is a required procedure in the auditor's firm to attend at physical stocktaking whenever practicable and reasonable. He felt he would be unable to justify departure from this procedure under the circumstances.

The auditor was able to apply the procedures as set out in C.I.C.A. Bulletin No. 7 in attempting to verify the inventory figure. The application of these did not reveal errors or misstatement.

However, the value of these procedures as a means of verification was reduced due to the following:

(1) Internal check in making the physical counts was defective in certain respects.

(2) Perpetual stock records were not maintained,

(3) No cost system was maintained; finished goods and work in process were valued at estimated cost.

Accordingly, the auditor was unable to satisfy himself entirely as to the accuracy of the inventory figure by application of procedures recommended by C.I.C.A. Bulletin No. 7, although the available evidence did not indicate errors. By not attending at physical stocktaking, it was felt that generally accepted auditing standards were not being met and that some appropriate qualification to the auditor's report was required.

In this case the report was qualified by adding the following sentence to the scope paragraph of the report: "We did not follow our usual practice of attending at the year-end physical stocktaking". The opinion paragraph of the report was prefaced by the words "Subject to the foregoing, in our opinion . . . etc."

The report has been subject to criticism in that it makes the reader uncertain as to whether the auditor has or has not satisfied himself as to the inventory figure.

How would you report under the circumstances?

ACCOUNTING PROBLEM

A company carries its investment in a wholly-owned subsidiary at cost (\$1,000,000). The subsidiary, having a surplus of \$6,000,000, issues a stock dividend of \$1,000,000. How should this be treated on consolidation?

(see July issue for discussion and readers' comments)

* * * *

TREATMENT OF MARCH PROBLEM

Theoretically, the accumulated depletion from the inception of operations to the beginning of the current year should be recalculated on the basis of the new estimate and an adjustment made to accumulated depletion and to surplus for the understatement of previous years' profits. In the current and succeeding years, depletion charges should be based on the new estimate.

In practice, it is common not to adjust the figures to the beginning of the current year but to recalculate current and future depletion charges from the cost not yet written off and the revised estimate of remaining ore. This practice is supported on the grounds that estimates of ore content change frequently, and too frequent adjustments of surplus and accumulated depletion would seriously im-

pair the usefulness of the financial statements.

* * * *

The panel of the Students Department greatly appreciates the untiring and spirited leadership of R. D. Thomas during his regrettably short tenure as departmental editor, which post he has relinquished since taking up his duties as executive secretary of the Canadian Institute of Chartered Accountants. The panel members extend to Mr. Thomas best wishes for a successful career in his new position.

A welcome new member of the panel is W. H. Corner, of Montreal, who has agreed to add your interests to his. R. D. Mackenzie has found it necessary to withdraw from the panel, and A. C. Ryley, of Toronto, has kindly consented to take his place.

TIMETABLE OF SEPTEMBER 1960 UNIFORM EXAMINATIONS

The Board of Examiners-in-Chief gives notice that the 1960 examinations of the Institutes of Chartered Accountants in Canada will be written according to the following timetable. The morning sessions will be from 9 a.m. to 1 p.m. and the afternoon sessions from 2 p.m. to 6 p.m.

Tuesday, September 6

Morning session — Final Accounting I

Afternoon session — Intermediate Accounting I

Wednesday, September 7

Morning session — Final Accounting II

Afternoon session — Intermediate Accounting II

Thursday, September 8

Morning session — Final Accounting III

Afternoon session — Intermediate Auditing I

Friday, September 9

Morning session — Final Auditing I

Afternoon session — Intermediate Auditing II

Monday, September 12

Morning session — Final Auditing II

Tuesday, September 13

Morning Session — Final Auditing III



NEWS OF OUR MEMBERS

Alberta

Clarkson, Gordon & Co., Chartered Accountants, Calgary, announce the admission to partnership of J. M. Rooney, C.A.

British Columbia

James M. Dunwoody & Co., Chartered Accountants, announce the removal of their offices to Ste. 622, 602 W. Hastings St., Vancouver 2.

D. E. Strong, C.A. announces the opening of an office for the practice of his profession in South Burnaby.

Bernard Woods, C.A. announces the admission to partnership of A. G. Hampson, C.A. Henceforth the practice of the profession will be conducted under the firm name of Woods & Hampson, Chartered Accountants, with offices at 513 Lawrence Ave., Kelowna.

A. L. Bell, C.A. announces the admission to partnership of O. I. Eidsvik, C.A. The practice will be carried on under the firm name of A. L. Bell & Co., Chartered Accountants, 325 Fourth Ave. E., Prince Rupert.

G. W. Vogt, C.A. announces the opening of offices for the practice of his profession at 4571 Kingsway, Burnaby 1, and in the Haney Plaza, Haney.

E. G. Woollard, C.A. announces the admission to partnership of N. C. Martin, C.A. The partnership will practise as Woollard, Martin & Co., Chartered Accountants, at 155 Commercial St., Nanaimo.

H. J. B. Macdougall, B.A., C.A. announces the removal of his offices to the Royal Bank Bldg., Ste. 2, 280-17th St., West Vancouver.

Rutherford, Bazett & Co., Chartered Accountants, Vernon, announce the admission to partnership of J. Wiebe, C.A.

Ontario

Clarkson, Gordon & Co., Chartered Accountants, announce the admission to partnership of T. P. Abel, C.A. and D. H. Wishart, C.A. in their Toronto office, and D. M. Cameron, C.A. in their London office.

D. G. Keaveney, C.A. has been appointed vice-president of John Inglis Co. Ltd., Toronto.

R. Armitage, C.A. has been appointed comptroller of John Inglis Co. Ltd., Toronto.

J. W. Blodgett, C.A. has been elected treasurer of Minnesota Mining and Manufacturing Co. of Canada Ltd.

O. J. Shore, C.A. has been appointed treasurer of White Hardware Ltd.

V. V. Garlick, C.A. has been appointed assistant to the secretary and treasurer of Union Carbide Canada Ltd., Toronto 7.

Thorne, Mulholland, Howson & McPherson, Chartered Accountants, and Henry Barber, Mapp & Mapp, Chartered Accountants, announce the merging of their practices. The offices of Henry Barber, Mapp & Mapp will be located at Ste. 902, 111 Richmond W. Toronto 1.

W. O. Hardacre, C.A. has been appointed assistant comptroller to E. P. McGavin, C.A., comptroller of the Ontario Hospital Services Commission in Toronto. B. W. Varty, C.A. has been appointed the Commission's senior consultant in finance.

Benson & Dorland, Chartered Accountants, announce the removal of their offices

to the Wallace Bldg., 153 Third St., Cochrane.

Quebec

W. E. Falconer, C.A. has been appointed executive assistant to the controller at the Gillette Safety Razor Co., Montreal.

J. P. Talbot, C.A. has been appointed comptroller of Catelli Food Products Ltd.

Winspear, Higgins, Stevenson & Doane, Chartered Accountants, and Stevenson, Blakely, Blunt & Co., Chartered Accountants, announce the removal of their offices to 635 Dorchester St. W., Montreal 2.

Katz, Friedman & Co., Chartered Accountants, and Issie Elman, C.A. announce the amalgamation of their practices under the name of Katz, Friedman, Elman & Co., Chartered Accountants, with offices at the Professional Centre Bldg., 5757 Decelles Ave., Ste. 314, Montreal.

OBITUARIES

We regret to announce the death of the following members:

GEORGE H. GLENNIE — who was auditor for Metropolitan Toronto, from 1953 until his recent retirement. Mr. Glennie

died on February 24 as a result of a heart attack. He was a graduate of the University of Toronto, and became a member of the Ontario Institute in 1925. He was elected to Fellowship in April 1956 for distinguished service to the profession. During World War I he served overseas as an officer in the Royal Garrison Artillery. Most of his working life had been spent in the service of the City of Toronto and, latterly, the Municipality of Metropolitan Toronto.

PHILIP ARCHIBALD GIBBS — 67-year old M.L.A. for Oak Bay, who died in Victoria on March 4 following an abdominal operation. Born in Wales, Mr. Gibbs came to Canada in 1912 and was admitted to the Manitoba Institute in 1920. In 1929 he moved to Oak Bay, B.C. where he managed the New World Laundries Ltd. In 1942 he joined the B.C. Institute and commenced the practice of the firm now known as Gibbs & Jermain, Chartered Accountants, Victoria. After serving as alderman and reeve of the Oak Bay municipality for many years, Mr. Gibbs was elected to the provincial Legislature in 1952. He was also a member of the Masonic Order, the Shriners, the Union Club and the Victoria Golf Club.



INSTITUTE NOTES

ONTARIO INSTITUTE

Annual Conference: The Institute has accepted the invitation of Queen's University to hold the 1960 conference on the Queen's campus. Elsewhere in this issue there is reference to the report of the C.I.C.A. sub-committee concerned with Long-Range Educational Planning, and the suggestion of that committee that university graduation be made a pre-requisite to registration as a student. This topic will be one of the main ones considered at the conference and W. F. Martin, F.C.A., of Vancouver will be attending to address the conference.

Other highlights will include a talk by Gordon Kennedy, public relations officer of the C.I.C.A. There will also be groups on management controls, the taxation aspects of corporate distributions, and auditing practices for the smaller client. A feature this year will be a panel of doctors discussing the means of combatting physical problems of professional life.

The conference will come to a conclusion with a "slow-down" session — a buffet with refreshments. Conference dates are June 19-21, accommodation will be available in the new residences, and a record attendance is anticipated. Complete de-

tails and registration forms will be mailed to members about May 20.

Second Annual Tax Forum: Approximately 160 people were present in the auditorium of the University of Toronto Schools on March 29, 1960, to hear an informative and lively panel discussion on income tax problems which was arranged by the Institute in conjunction with the *Toronto Star*.

Panelists were J. J. Shulman, F.C.A. (J. J. Shulman & Co.), H. Dixon, F.C.A. (Clarkson Gordon & Co.), John Orr, F.C.A. (Ross, Touche & Co.) and W. G. Leonard, F.C.A. (England, Leonard, Macpherson & Co.). The chairman was W. I. Hetherington, F.C.A. (Gunn Roberts & Co.).

It is hoped that a "taped" account of the evening will again be broadcast over many radio stations; the first tax forum was broadcast over 26 stations in Ontario.

Vocational Guidance Supper: The Institute held a buffet supper in the Chartered Accountants Building, Toronto, on March 24, and invited the guidance teachers from Metropolitan Toronto secondary schools to attend. C.A. career counsellors appointed to Toronto schools were also present. Over 100 teachers and C.A. career counsellors attended.

B.C. INSTITUTE

Institute Conference: The program of technical sessions to be held on June 16 in the U.B.C. Buchanan Building will include an address by P. J. Chadsey of the Toronto office of Wood, Gundy & Co. Ltd. on "How to Obtain Capital" a symposium on taxation matters dealing with elements of the B.C. Social Services Tax Act, with recent Canadian Tax Foundation developments and with a commentary on the 1960 federal budget; and a panel on "Capital Budgeting".

The editor welcomes information for this column. News of members and provincial Institutes' activities received up to and including the 11th of the month will appear in the following issue of the journal.

The annual general meeting, to be held in the Hotel Vancouver on the morning of June 17, will be followed by an afternoon session on long-range educational planning concepts and a dinner dance in the Hotel Vancouver ballroom.

QUEBEC INSTITUTE

Provincial Conference Developments: A. A. Macnaughton, Q.C., M.P. for Mount Royal and chairman of the Public Accounts Committee of the House of Commons, is scheduled for a feature address to the annual provincial conference on Tuesday, June 21. The conference, to be held at the University of Montreal, will continue on June 22.

OTTAWA C.A. CLUB

The last luncheon meeting of the 1959-60 season of the C.A. Club of Ottawa was held on Thursday, April 7, in the Chateau Laurier. President Stan Payne introduced the guest speaker, His Excellency, Dr. L. N. Palar, Ambassador of Indonesia, who spoke on "Current Events in Indonesia".

WINDSOR AND DISTRICT C.A. ASSOCIATION

An evening meeting of the Windsor and District Chartered Accountants Association was held at the Elmwood Casino on February 1, when a panel discussion took place on "Practitioners' Problems". The panel was chaired by W. R. Copeland, C.A. and the meeting was presided over by Douglas MacLennan, president of the Club. Panel members were L. W. Pastorius, C.A., W. M. Stoneman, C.A. and Dr. G. R. Horne, director of the School of Commerce of Assumption University, Windsor.

C.A. CLUB OF WESTERN ONTARIO

About 60 couples attended the annual dinner dance of the Chartered Accountants Club of Western Ontario held on March 2 in Hotel London. Newly qualified C.A.'s and their ladies attended as guests of the club. Gino Francolini, vice-president of social activities, was in charge of arrangements.

CLASSIFIED ADVERTISEMENTS

All replies to box numbers should be sent to The Canadian Chartered Accountant, 69 Bloor Street East, Toronto 5, Ontario.

Rates: Positions wanted, \$7.00 per column inch; Positions offered, \$10.00 per column inch; Open rate, \$17.00 per column inch.

Closing date is 11th of preceding month.

C.A., B.COM., 35, nine years in public practice, desires purchase or succession arrangement in Victoria, B.C. Box 212.

PRACTICE WANTED in Toronto area. Purchase, succession arrangement or position leading to partnership. Box 211.

PRACTICE WANTED: Purchase or partnership in Kitchener-Guelph vicinity. Box 215.

PRACTICE WANTED: Purchase or succession arrangement. Preferably in Eastern Ontario. Box 216.

SMALL PRACTICE WANTED: in Toronto area. By direct purchase or succession arrangement. Box 219.

PARTNERSHIP IN MONTREAL: Young C.A. with medium-sized and growing practice seeks C.A. in similar position with view to association for mutual benefit. Would also consider employed C.A. with nucleus for future partnership status. English. Box 208.

A LARGE INDUSTRIAL group with headquarters in Montreal has an opening for a young English-speaking chartered accountant, preferably bi-lingual, on the internal audit staff, in which there is approximately 40% travelling. Replies giving full resume of qualifications and positions held, together with photograph, should be addressed, in confidence, to Box 210.

CHARTERED ACCOUNTANT, B.Com., Jewish, desires position leading to partnership or succession with practising firm in Toronto. Box 213.

C.A. OR C.P.A. under 35 for head office of Life Insurance Company. A real opportunity for the right man. Must be managerial calibre. Forward full details as to age, education and practical experience to Box 214.

CHARTERED ACCOUNTANT — 1954 graduate, age 35, desires position offering responsibility and advancement, in public practice. Will relocate anywhere in Canada. Would also consider partnership or succession arrangement — has capital available. Experience has all been in public practice, both as employee and manager. Box 207.

CHARTERED ACCOUNTANT, female, Taxation Department experience, would like part-time employment. Box 217.

CHARTERED ACCOUNTANT: age 35, six years experience since graduation including Revenue Department and five years with present firm at major and junior partnership level in a small town. Active in community work. Wishes to relocate in city of 25,000 or more, preferably in Ontario, and in association with small to medium-sized firm. References available on request. Box 218.

CHARTERED ACCOUNTANT, recent graduate required, willing to assume responsibility. Telephone Wm. Eisenberg & Co., EM. 3-4222, Toronto.

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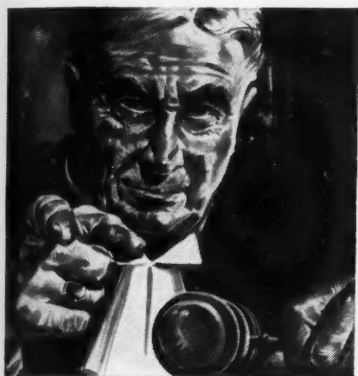
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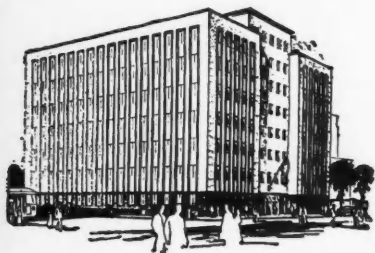


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